



GOVERNMENT COLLEGE

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VOLUME VIII

SUMMER 1975

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The Federal Budget—1975-76

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Social Development

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DEPARTMENT OF ECONOMICS  
GOVERNMENT COLLEGE, LAHORE - PAKISTAN

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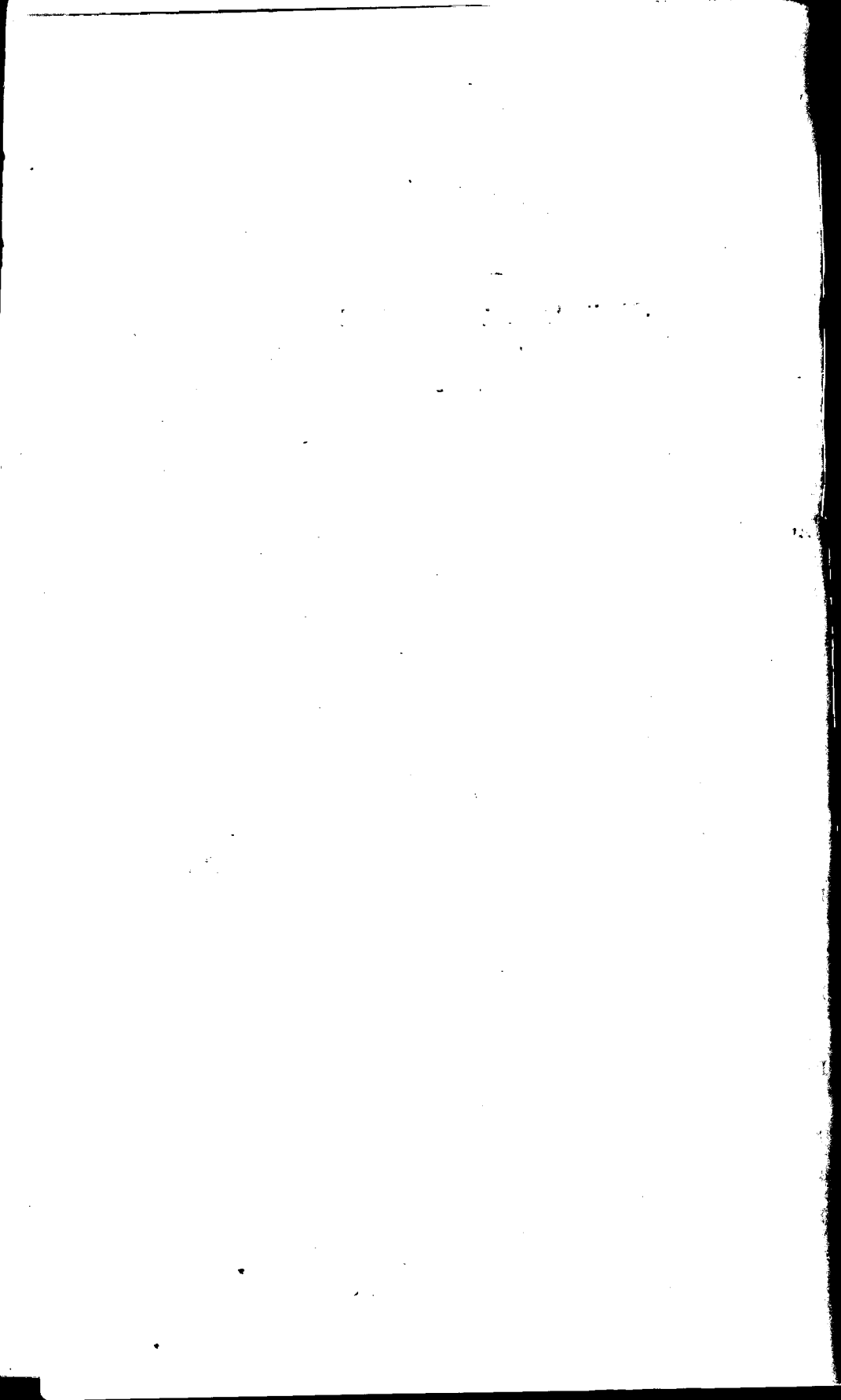
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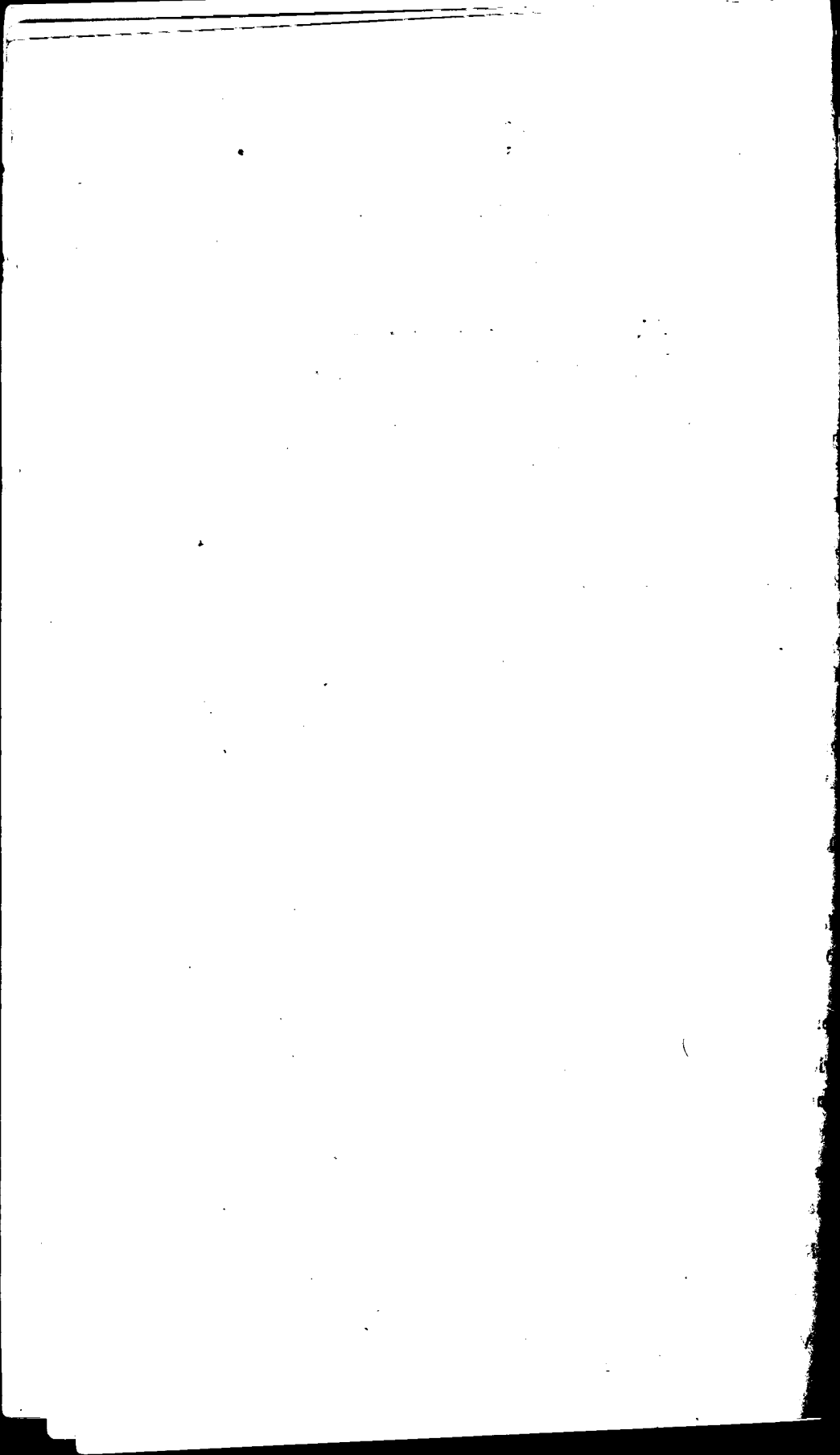
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DEPARTMENT OF ECONOMICS  
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## THE FEDERAL BUDGET - 1975-76

The Federal Budget 1975-76 provides encouraging signs of robust commonsense and pragmatism with a projected GNP growth rate of 9 per cent. In the light of the last year's development experience when there was a decline in the per capita income this very projected growth rate is supposed to promote the welfare of the people in the country. The year 1974-75 has been a difficult year for Pakistan. Since the beginning of the year a series of events—both international and domestic—interacted to arrest the buoyant economic recovery witnessed in 1972-73 and 1973-74. Internationally, Pakistan was subjected to the same adverse economic factors that have plagued most of the developing countries in the world. Due to world inflation-cum-recession, we suffered a severe decline of our terms of trade. We had also to face some difficult domestic problems. The catastrophic floods of the last fiscal year, were followed by a record drought this year. While our canals were thirsty for water, the project that could have made up the shortage, i.e, Tarbela Dam, got damaged and delayed. To cap it all we suffered a severe earth-quake in the Northern Region.

Three inter-related indicators—the balance of payments, decline or stagnation in production and the strain on the budget—gave storm warnings of the gathering crisis in the fiscal year 1974-75. Export earnings in 1974-75 are likely to amount to 1,050 million dollars, nominally higher than last year. The imports are going to cost 2,150 million dollars, thus revealing a massive payments deficit of 1,100 million dollars. Export stagnation constitutes a reversal of the healthy three-year trend of a rapid rise from 25 per cent to 40 per cent a year.

This is of course mainly attributable to the adverse movement of the terms of trade, though the trade gap could have been narrowed if we were able to produce larger surpluses for export. The second indicator is the rate of growth of 2.6 per cent in GNP, which is well below the rate of increase in population. Compared with 1973-74, the production of wheat, during the current year, declined from 7.5 million tons to about 7 million tons, that of rice from 2.41 million tons to

about 2.15 million tons, that of sugarcane from 23.5 million tons to 21 million tons and that of cotton from 3.70 million bales to 3.56 million bales. Other major crops are also likely to register a decline in output. So far as the production of large-scale industry is concerned the overall trend is towards a tapering off of the rate of growth. As against a growth rate of 11.9 per cent in 1972-73, large-scale industry registered a growth of 7.5 per cent in 1973-74 and 3 per cent in 1974-75. In the course of the current year the impressive advance made by fertiliser, cement and vegetable ghee industries, was more than offset by overall stagnation, a circumstance which largely reflected the weight of the textile industry's predominant position. On the plus side such segments as small industry and housing registered noticeable gains, but the better performance of these light weights could not contribute to much improvement in the overall GNP picture. The third indicator is budgetary stringency. Sagging foreign demand for Pakistan's exports and rising prices of imports necessitated several adjustments to cushion the 1974-75 budget provisions against disturbances emanating from abroad. Most of the export duties had to be removed and the excise duty on yarn had to be slashed drastically, necessitating an increase in several import duties to protect the budget and reduce the need for deficit financing.

The charges for gas and electricity were raised and prices of kerosene and motor spirits had to be revised upward under the compulsion of a rise in international energy prices. Lastly in April this year the prices of wheat, sugar and vegetable ghee had to be raised to reduce the increasingly intolerable burden of subsidies, which were estimated to be running at a rate of about Rs.400 crore a year.

The three inter-related factors—the trade gap, the production gap and the budgetary gap—cumulatively exerted a powerful impact on costs and prices. The rate of inflation was accelerated and pushed up to about 2 per cent per month.

This difficult position has been recognised by the Government and she has come out with a new package deal to boost exports, promote saving and investment and curb non-development expenditure during 1975-76. The Government has conceded the long-standing demand of the private sector that investment policies be framed on a long-term basis and that there should be a ready formula of compensation to settle claims in the event of nationalisation. The formula now



announced provides for calculating compensation either at the break-up value or market value of shares, whichever is higher. Moreover the fixation of the rate of compensation is made subject to an appeal. This will remove the uncertainty about the rate and mode of payment of compensation and help improve the business climate. While compensation bonds will be redeemable after 15 years, small investors holding shares of the value of not more than Rs 5,000 have the facility of getting their bonds redeemed within two years.

Another concession is that if a holder of bonds makes investment in a new approved industry, his bonds will be redeemable at the expiry of three years to the extent of the amount of such investment. Further fiscal incentives have been given to promote investment on a long range, five year basis. They are :

1. Special allocation of Rs. 2 crores has been given for the expansion of the Utility Stores Corporation.
2. Exception has been allowed to income derived by any taxpayer between July 1975 and June 30, 1980 from poultry farming, dairy farming, fish catching, cattle and sheep breeding.
3. Profits earned by companies between July 1, 1975 and June 30, 1981 from industrial undertaking the said period have been exempted to the extent of 10 per cent of capital in certain areas, and five per cent of capital in certain other areas.
4. Special investment allowances upto Rs.10,000 within the overall limit of 30 p.c. of total income has been provided for investments made after July one, 1975 in approved industrial. Investment and holding companies in the public sector or for life insurance.
5. Super tax rebate of five per cent would be allowed to companies setting up industrial undertakings between July, 1975 and June 30, 1980 with fixed assets costing more than Rs. 30 lakhs.
6. Export rebate at the rate of 25 p.c. of the tax attributable to income from the export of approved items made after July 1, 1975 has been allowed to manufacturers exporting such goods.
7. Co-operative societies (not paying companies) have been allowed the benefit of personal allowances, investment allowance and earned income relief.

8. The pre-condition of the payment of 50 per cent of tax before the filing of an appeal before the Income Tax Appellate Tribunal has been removed.
9. The Government has also allowed forward trading in scrips on a selective basis in order to strengthen trading at the stock exchanges.

Investment in the private sector registered a slight improvement when it increased from Rs. 458 crore in 1973-74 to Rs. 580 crore in 1974-75. It is likely that this trend will be strengthened. The new fiscal incentives and the announcement of a uniform and realistic compensation formula will give a substantial boost to investment and production. The Government has already met with some success in its savings drive and the new Budget provides further incentives to saving. The ceiling of special investment allowance has been raised from Rs. 20,000 to Rs. 30,000 within the limit of 30 per cent of income, provided the extra allowance is invested in a public sector company or life insurance. Small savings schemes, savings accounts and savings and defence certificates have been made fairly attractive for small investors. Some relief is provided in personal taxation. This will be welcomed by persons with fixed incomes whose capacity for saving has been seriously eroded by price inflation and taxation.

An alarming feature of the Budget is the very heavy dependence on foreign assistance. Out of the Annual Development Programme of Rs. 1369 crores about Rs. 1150 crore consist of foreign assistance. This is not at all a happy situation.

Although the international economic situation and the setback caused to agriculture by low flows in rivers and the Tarbela mishap added greatly to the perplexities of economic decision-makers, the fact remains that there are weaknesses in the economy which can be probed to indigenous factors. If the country makes satisfactory progress towards the attainment of food autarky thereby eliminating the need for subsidy, if industrial investment and exports pick up and if the rate of inflation is reduced considerably, the worst of the crisis will have been left behind.

A.S.K.

# Resource Mobilization for Economic and Social Development with Special Reference to 1974—75 Federal Budget

*Rafiq Ahmad\**

This paper aims at projecting the view that (a) resource mobilisation for speedy economic development is a comprehensive phenomenon covering all types of resources whether financial or non-financial, political or administrative, social or ideological, and that (b) effective commitment to economic and social development on a mass scale can be obtained only through activating domestic resources, and that (c) isolated budgetary attempts backed by external resources or national expediences (as has been done in the 1974—75 Federal Budget) can prove helpful to some extent but cannot create an atmosphere of commitment and mass participation and that (d) there is need in Pakistan for a fundamental change of outlook in this respect.

## I

The term resource mobilization can be used in both narrow and broad sense. In the narrow sense, it refers to efforts at raising funds for development from foreign and domestic resources. The foreign resources include (a) foreign private investors, (b) foreign governments, (c) multilateral agencies such as IBRD, aid clubs, regional development banks, (d) Export-Import Bank and (e) a country's own nationals settled in large numbers abroad. The domestic sources comprise (a) taxes (b) private savings (c) corporate savings (d) deficit financing and credit creation, and (e) a country's own export earnings which should be included among domestic resources because they are earned from selling domestically produced goods.

In the broad sense, however, resource mobilisation means mobilisation of the entire resources of the economy in an organised way to achieve clearly-stated set of socio-political goals. This does not mean that the role of financial resources should be minimised but such resources in themselves may not produce results unless the entire socio-economic resource base of a nation becomes active. If economic development implies a deliberately planned process of increasing real incomes of masses, then this is not possible without

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the committed and active participation of masses. The people of a country are its biggest development resource but they are not lifeless machines : they have their goals, aspirations and ideologies and can be motivated to move mountains and accomplish impossible feats. It is the mobilisation of this power which lies at the root of all resource mobilisation efforts. It is in this context that a comprehensive resource strategy is required for mobilising physical, capital, manpower, technological and socio-political resources which are considered to be the five major factors of development.

## II

A resource mobilisation programme which seeks to enlist mass participation must get its motivational support from domestic rather than external resources. Like an individual a nation also has its self or *Khudi* whose awa knance can play a vital role in its speedy development. Its possessor may suffer from serious deficiencies but once the process of self-realisation starts it may cure all initial ailments. This is not a metaphysical exercise. One can quote several examples from the pages of past economic history and more particularly from the experiences of such socialist countries as Yugoslavia and China in which commitment to domestic resource mobilisation has produced remarkable results.

I am not advocating that external resources should be totally done away with. Perhaps in our circumstances it may neither be possible nor advisable in the near future. Our developmental activities are mostly based on external resources which financed 75% of the last year's development plan and will finance 64% of this year's.<sup>1</sup> However, it must be realised that although foreign resources can provide valuable help in monetary and technical terms they cannot create conditions in which national socio-political objectives can be obtained and masses involved on all development fronts. Such involvement can come only through participation in the utilisation of national resources. Apart from this, the overall picture of foreign resources is that they are (a) inadequate for meeting development needs, (b) expensive, (c) burdensome as is evident from heavy debt servicing, (d) quite often inconsistent with national programmes of industrialisation, (e) slow in actual disbursements, and (f) undependable because they are used as a tool of power politics.

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1. See table If at the end.

## III

The foregoing discussion may now be summed up :

(i) A resource mobilisation strategy should have these features : It should be a total policy covering all types of resources. It should seek mass participation. It should operate on domestic resource base.

(ii) The following conditions are necessary for the success of resource mobilisation efforts : (a) A reasonable degree of political stability and confidence should prevail in the country, (b) The political decision-makers should clearly spell out national economic and social goals with special reference to the desired levels of employment, consumption, public sector, and other economic activities, (c) Annual mobilisation efforts should form part of long-term, consistent and well-organized mobilisation programme.

## IV

How far does the recent Federal Budget meet the above mentioned resource mobilisation criteria ? The answer is that it meets this criteria only partially. Its mobilisation effort is primarily confined to financial resources and even in this respect it does not tap all the resources and draws heavily on external help. There are three main reasons for this situation. Firstly, Pakistan has not framed so far any comprehensive resource mobilisation strategy. Secondly, the main task before the country since the tragic events of 1971 has been to consolidate its shattered economy rather than to expand it. Thirdly, the rising tide of inflation has forced the government to grant some tax concessions and wage increases, thereby depriving itself of considerable amount of revenue (although this loss may well be neutralised by increases in the price of several public sector goods). In fact the 1974-75 Federal Budget is concerned with inflation more than any thing else.

This does not mean that financial resources have not increased at all. Actually both domestic and foreign resources have registered increases within the existing resource mobilisation framework, as can be seen in Tables I and II at the end. For example, total receipts under revenue budget increased from Rs. 842 crores in 1972-73 to Rs. 1153 crores in 1973-74 (revised) and will further rise to Rs. 1388 crores in 1974-75. Similarly, total domestic resources for Annual Development Plan increased from Rs. 20 crore in 1972-73 to Rs. 147 crores in 1973-74 (revised) and are expected to rise to Rs. 327 crores in 1974-75. In the same way external resources for ADP increased from Rs. 311 crores in 1972-73 to Rs. 440 crores in

1973—74 (revised) and may well reach the figure of Rs. 557 crores next year.

However, behind these outward increase in the amounts of resources there lurk some disquieting facts. There is the phenomenon of heavy dependence upon foreign resources, constituting 94%, 75% 64% of Annual Development Plans of 1972—73, 1973—74 and 1974—75, respectively. Although this dependence is decreasing, it is still alarmingly high, thereby showing that either we lack domestic resources or are guilty of grossly underutilising them. As for domestic resources, their value in real terms should be at least 26% lower than their outward value because of 26% rise in prices.

We have so far talked about gross resource mobilisation. If we take into account net additional resource mobilisation in the 1974—75 Federal Budget it may well be negligible or even negative. Net additional resource mobilisation in public sector can be calculated by finding the difference between loss of revenue due to tax concessions and gain of revenue due to enhanced prices of ghee, gas, electric power, sugar and rail travel (after making necessary adjustment for increased costs). The loss of public revenue due to tax and custom concessions comes to Rs. 106.18 crores. The gain of revenue from enhanced public goods prices is not known officially but some put it at Rs. 110 crores. (including Rs. 10 crores levy on gas). Thus net additional resource mobilisation in public sector is Rs. 110 crores — Rs. 106.18 crore = Rs. 3.82 crores, which is almost negligible. This amount will become negative if our loss figure includes the recently abolished export duty on cotton products (amounting to Rs. 35 crores) and enhanced wage bill.

<i>Loss of Revenue</i> (Rs. in crores)		<i>Gain of Revenue</i> (Rs. in crores)	
Income tax concession	10.50	Enhanced levy on gas	10.00
Reduction in Customs	95.34	Enhanced prices of crude oil, petroleum products, vegetable ghee, electric power, sugar (estimates)	100.00
Revenue loss under sales tax	.32		
Revenue loss under wealth tax.	.01		
Revenue loss under Estate Duty.	.01		
	<hr style="width: 100%; border: 0.5px solid black; margin: 0;"/> 106.18 <hr style="width: 100%; border: 0.5px solid black; margin: 0;"/>		<hr style="width: 100%; border: 0.5px solid black; margin: 0;"/> 10.10 <hr style="width: 100%; border: 0.5px solid black; margin: 0;"/>

Net additional resource mobilisation

= 110.00 — 106.18 = Rs. 3.82

It may be observed that various types of tax and investment concessions, though reducing public domestic resources, enhance private domestic resources. Seen from this angle the recent Federal Budget represents a shift of mobilisation policy in favour of private sector. Further it has not touched two potential areas of greater resource mobilisation, viz., agricultural and trading sectors.

In spite of all this there exists now a much greater chance of resource mobilisation in public sector due to two factors: Firstly, a series of institutional reforms introduced by the present government have paved the way for greater public interest in acts of self-help. Secondly, the scope of nationalised sector has widened thereby laying greater resources at the command of the government. To take an example, the taxes paid by the nationalised industries have increased from Rs. 12.2 crores in 1971—72 to Rs. 14.5 crores in 1973—74.

Our attention in Pakistan has mostly remained confined to the mobilisation of capital resources for development with the result that the vast social energy of the people has been going waste. What is immediately needed is total mobilisation framework as the central focus of all national economic policies and an integral theme in total state policy on all fronts.

The formulation of such framework requires a study in depth of the goals and aspirations of the people and the nature and size of physical resources. Opinions will naturally differ as to what should be done but there can be agreement on the point that fundamental changes are needed in our outlook and that isolated attempts undertaken so far for mobilising resources cannot deliver the goods.

I offer here a few suggestions in this connection for loud thinking :

- (i) For mobilising resources of all areas, the country needs to be divided into *basic development units*. The present district, tehsil and thana boundaries were historically carved out for the maintenance of law and order and not for developmental purposes. The basis for the formation of such units can be the homogeneity of resources.
- (ii) The basic set of economic and socio-political goals should be given by the central planning authorities but implementation of policies based upon such goals should be entirely left to the basic development units.
- (iii) Whatever name is given to such units, their resources should not be allowed to be transferred to other areas except in the

shape of a fixed share to be taken by the central government for discharging its functions. This is necessary for creating confidence among the people regarding the proper utilisation of their resources.

TABLE I

Financial resources mobilised for maintaining current levels of economic activities.

	1972—73		1973—74		1974—75			
	Revised	(Original)	(Revised)	(Original)	(Original)	(Original)		
<b>Tax Receipts</b>								
(i) Custom Duties	264	} 81% of total tax receipts	362	} 391	} 594	} 88%		
(ii) Central Excise duties.	225		235				276	300
(iii) Sales tax	43		50	65	70			
(iv) Taxes on individual and corporate income	105	16%	103	13%	115	13%	115	14%
(v) Other taxes and surcharges.	24		22		36		—7	
<b>Total tax receipts.</b>	<b>661</b>	<b>78.5%</b>	<b>772</b>	<b>78%</b>	<b>883</b>	<b>78%</b>	<b>1072</b>	<b>77%</b>
<b>Non-Tax Receipts (Interest rates, commercial undertakings, Civil administration etc.)</b>								
	18	21.5%	222	22%	270	22%	316	23%
<b>Total Gross Receipt.</b>	<b>842</b>		<b>994</b>		<b>1153</b>		<b>1388</b>	

**Notes :**

- (i) Figures in crores of rupees.
- (ii) Totals include revenue assignments to provinces.
- (iii) Budgetary documents do not always contain comparable or similar figures due to unexplained variations of details. However the broad picture of resource mobilisation is not affected by it.
- (iv) Resources : *Annual Budget Statement of the Government of Pakistan 1973—74*, for 1972—73 figures and *the Budget in Brief 1974—75* for remaining figure.



TABLE II

Financial resource mobilised for generating new levels of economic activities (i.e. sources of Annual Development Plans of 1972-73, 1973-74 and 1974-75)

	1972-73		1973-74		1974-75			
	(Revised)		Original	Revised	Original			
<i>Domestic Resources</i>								
(i) Net capital receipts.	2		65	151		131		
(ii) Revenue surplus	22		67	-27		174		
(iii) Self financing by autonomous basis	10		23	8		22		
(iv) Provincial contribution	-14		7	15		-		
<b>Total Domestic Resources.</b>	<b>20</b>	<b>6%</b>	<b>162</b>	<b>33%</b>	<b>147</b>	<b>25%</b>	<b>327</b>	<b>36%</b>
of total resources								
<b>Foreign Resources.</b>	<b>311</b>	<b>94%</b>	<b>330</b>	<b>67%</b>	<b>440</b>	<b>75%</b>	<b>557</b>	<b>64%</b>
of total resources								
<b>Total Domestic and Foreign Resources</b>	<b>331</b>		<b>492</b>		<b>587</b>		<b>884</b>	
<b>Resource gap (Between programmed developmental expenditure and available resources)</b>			<b>-65</b>		<b>-24</b>		<b>+30</b>	

**Notes :**

- (i) Figures in crores of rupees
- (ii) Cash balances not included
- (iii) See notes III or IV of Table I.

# PRICE CHANGES AND FINANCIAL STATEMENTS OF A FIRM

*Khawaja Amjad Saeed\**

Price level changes in the economy tend to distort financial statements. The fact that an unstable measuring unit is used in accounting poses the greatest impediment to the interpretation of its results as found in the financial statements.

Due to the fact that world-wide inflation is common, it has led to the discussion of various approaches to price-level change in accounting communication.

## THE ACCOUNTING COMMUNICATION PROCESS

After the industrial and commercial revolutions, the corporate sector has developed in a big way. One result of this phenomenal development was the divorce of those who provided share capital and those who managed the affairs of the companies. This, in turn, led to the development of maintenance of accounts and the dissemination of information to shareholders and other interested groups through Income Statement (showing operation) and Balance Sheet (indicating financial position). This communication process now embraces the principle of full and fair disclosure to shareholders and this is considered as an overriding tenet of the communication aspect of the accounting function.

## PRICE-LEVEL CHANGES AND DECISION-MAKING

One of the most significant factors in decision-making is that of uncertainty. There are uncertainties about future sale trends, future cost patterns, the effect of technological change, Government Regulations and so on. Quite apart from current trends of more Government interference, inflation itself injects a major element of uncertainty into business decisions and will, therefore, tend to in-

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fluence the decisions that are made. To this could be added the fact that the longer the period of time covered by the decisions, the greater will be the influence that inflation will have upon its eventual outcome. Typical of such decisions is the capital investment decision which, apart from the impact of other factors, has a considerable effect upon the long-term profitability of the business.

### EFFECTS OF PRICE-LEVEL CHANGES AND MANAGEMENT INFORMATION

The recognition of inflationary effects on the preparation and use of accounting data has been a topic of perennial, though desultory, discussion ever since the last Great War. Recent steps to improve the quality of management have highlighted the need for efficiency which can be measured, apart from other tools, by the return of capital. But how useful such a measure in an inflationary economy can be is anybody's guess.

**Return on Investment.** In an article entitled "Countering Hidden Effects of Inflation" published in *The Financial Times* of January 5, 1967, the drastic effects which inflation has on return on investment have been fully explained. The table given in the said article shows return in real values on investment over periods of time and at varying annual rates of inflation, e.g., an investment in fixed assets which shows a rate of return of 15 per cent on its historic cost but in fact has a return in real value of only 10 per cent over a 20-year life if the inflation is 3 per cent per annum. If the rate of inflation goes up to 6 per cent per annum, the return in real values over 20 years is only 7 per cent. Therefore, effects of this magnitude in the key measurement of managerial efficiency cannot be ignored. Moreover, this situation will have serious consequences upon the quality of the decisions made by management for the future financial stability of the business and its long term viability, and for the effect of taxation.

**Modification of Historical Costs.** If management is to base its decisions on rational appreciation of the affairs of the business, accounting reports originating in historical cost accounting will have to be substantially modified before they are used as a basis of discussion and interpretation. If the accounting data used have been seriously distorted by inflation, they are of no real value and may in fact have undesirable results if this is not appreciated.

## INPUT AND OUTPUT INFLATION INDICES

Price level changes are now seen by most people as a national problem. Economists have developed a number of measures of inflation such as the consumer price index, or the corresponding wholesale price increase. But for a particular company they are all irrelevant. The only price rises that are relevant to that business are those of its own input and output, and those may differ very substantially from the national figure arrived at by averaging hundreds of elements.

**Input inflation Index.** We suppose that a business makes two products, 'M' and 'N' with given facts, the input inflation index is calculated as under :

### CALCULATION OF INPUT INFLATION INDEX

Particulars	Units in thousand	First Quarter 1971 Prices \$	First Quarter 1973 Prices \$	1973 Index	Input Inflation Index (Weighted average of Product mix)
<b>Product M</b>					
Labour (man-hours)	60	100	106	106	109*
Raw Materials (lbs)	80	400	440	110	
<b>Product N</b>					
Labour (man-hours)	100	200	200	100	
Raw Materials (lbs)	20	1,000	1,400	140	120

\*Note : 120 can also be worked out similarly.

The figures for the first quarter of the year 1972 have been used as a base for calculating the relevant input inflation index for the year 1973. Instead of using a simple average, it has been deemed desirable to develop weighted average of the product mix and based on this approach the input inflation index has been worked out.

**Output Inflation Indices.** These are computed in a similar fashion. The items in the make-up of these indices will be the home market sales and export sales. If goods are exported to a number of countries, a sale price index will be required for each and these will go into the make-up of output index. These indices are accurate guides for profit maximization. These are thus very helpful for reflecting price level changes for developing figures in respect of accounting communication. Realistic results would emerge by using these indices.

## MEASURING IMPLICATION OF PRICE-LEVEL CHANGES

Corporate financial accounting in Pakistan ignores fluctuation in the purchasing power of the rupee. Historical costs are measured with historical rupees. No attempt is made to translate the cost arising from an expenditure made years ago into equivalent rupees of the same purchasing power today. The important measurement implication of this financial accounting practice is that rupee amounts of various items in the profit and loss account are in terms of varying purchasing power equivalents.

The goal should be that the various items of revenue and expense in each annual income statement are reasonably expressed in terms of the purchasing power of current rupees. This will require the conversion of the historical rupee cost of deferred cost assets to the current rupee equivalent with a concomitant increase in a special category of shareholder's equity.

### PRICE INDEX ADJUSTMENT

For the analyst, the problem is one of adjusting the financial statements, for the distortions caused by price level changes. Index number appears to offer the most fruitful means of making the desired adjustment. Index number may be applied through the use of specific indices for each statement item.

### REPLACEMENT PRICE ACCOUNTING

No company will undertake the risk of producing goods to be sold at loss. (This idea, applied to continuous business operations, for its products a sum greater than the investment and running cost needed to produce the goods.) This idea, applied to continuous business operations, appears to lead to the suggestion that replacement prices should be used for the representation in financial statements of assets on hand from time to time. For if goods are to be produced continuously, provision must be made by way of charges against revenues for the replacement of all assets used up in periodical production.

Charging depreciation on the basis of replacement cost instead of historical cost certainly helps to avoid depletion of the true value of the capital in a business which would undoubtedly follow if the price and dividend policy assured at maintaining that capital only in terms of money which was falling in value. For a mixed capital asset such as a plant and a building which cost one \$ million 12 years ago, an accumulation of each of this amount only would unlikely be enough to finance more than about half the cost of replacement today.

But the replacement cost basis involves guess-work about future not only of the value of money in general terms, but also of its value for the purpose of replacing the particular asset concerned. There are so many factors involved that there cannot be clear rules for a general application. Due to technological advancement actual money cost of replacement of the productive capacity has actually fallen in spite of the general increase in prices due to inflation. There has been so much technological advancement that the case of replacing that capacity has gone down in terms of money.

#### CASE FOR REFLECTING PRICE—LEVEL CHANGES IN THE FINANCIAL STATEMENTS OF A FIRM

Accounts that are not oriented towards rising price levels or towards changes in current values of assets or liabilities suffer from the following defects :

- (a) They do not show the loss to an entity that occurs as a result of holding money or claims to money, e.g., receivables, investment in shares etc., or the gain that results from owing money when the purchasing power declines.
- (b) They do not show the gain to an entity that results from holding other assets whose current value has increased by more than the general price level or the loan from the opposites situation.
- (c) They do not measure the income from operations of Cost Figures incurred in earlier years are not set off against revenues received in current year.

For compensating the above shortcomings of conventional accounting, the following two types of adjustments are needed :

- (a) A restatement of account balances in accordance with a general price-level index can deal with the first shortcoming. However, there are several problems connected with this which we have discussed earlier, and shall be discussed in the latter part of the article.
- (b) The second and third defects require evaluation of specific assets at current values (mostly replacement costs). Problems pertaining to this have been highlighted earlier.

#### Case Study

The following illustration will explain the methodology of preparing Income Statement and Balance Sheet after reflecting price-level changes.

The accounts of Babar Building Company Limited, four years after the Company was organized were as follows :

**BALANCE SHEET**

As at March 31, 1972.

Assets	\$	Capital and Liabilities	\$
Cash and Bank Balance	200,000	Current Liabilities	80,000
Rents Receivable	20,000	Debentures	400,000
Land-at-Cost	200,000	Paid-up-Common Stock	600,000
Building Net	800,000	Retained Earnings	140,000
	1,220,000		1,220,000

Common Stock and Debentures were issued four years ago and land and building acquired on the same date. At that time the index of general price-level stood at 100. At the beginning of fifth year the price index was 160. A summary of transaction during the fifth year, with price indices prevailing when transactions occurred is given below :

Particulars	\$	Index
Rents receivable collected	20,000	160
Current liabilities paid	80,000	160
Current rentals collected	256,000	180
Current Operating costs (excluding depreciation and income-tax)	150,000	180
Interert paid	8,000	180
Interest paid	8,000	200
Principal amount of Debentures	40,000	200
Taxes paid accrued at year end	32,000	200
Dividends declared and paid	40,000	200
Rent Receivable accrued at year end	24,000	200
Current liabilities paid	120,000	180

## BABAR BUILDING COMPANY LIMITED

Income Statement for the Year Ended March 31, 1973

Particulars	Amounts without Price Level Changes \$	Conversion rate	Amounts after Price-level Changes. \$
1. Rental Income : Collected	256,000	200/180	284,444
Accrued	24,000	200/200	24,000
	<u>280,000</u>		<u>308,444</u>
2. Expenses : Operating			
Cost	150,000	200/180	166,666
Depreciation	50,000	200/100	100,000
Taxes	32,000	200/200	32,000
	<u>232,000</u>		<u>298,666</u>
3. Net Income	48,000	.	9,778
4. Less : Interest	8,000	200/180	8,888
Charges	8,000	200/200	8,000
	<u>16,000</u>		<u>16,888</u>
5. Earnings for Shareholders	32,000		(7,110)
6. Dividends	40,000	200/200	40,000
Decrease in retained earnings.	8,000		47,110

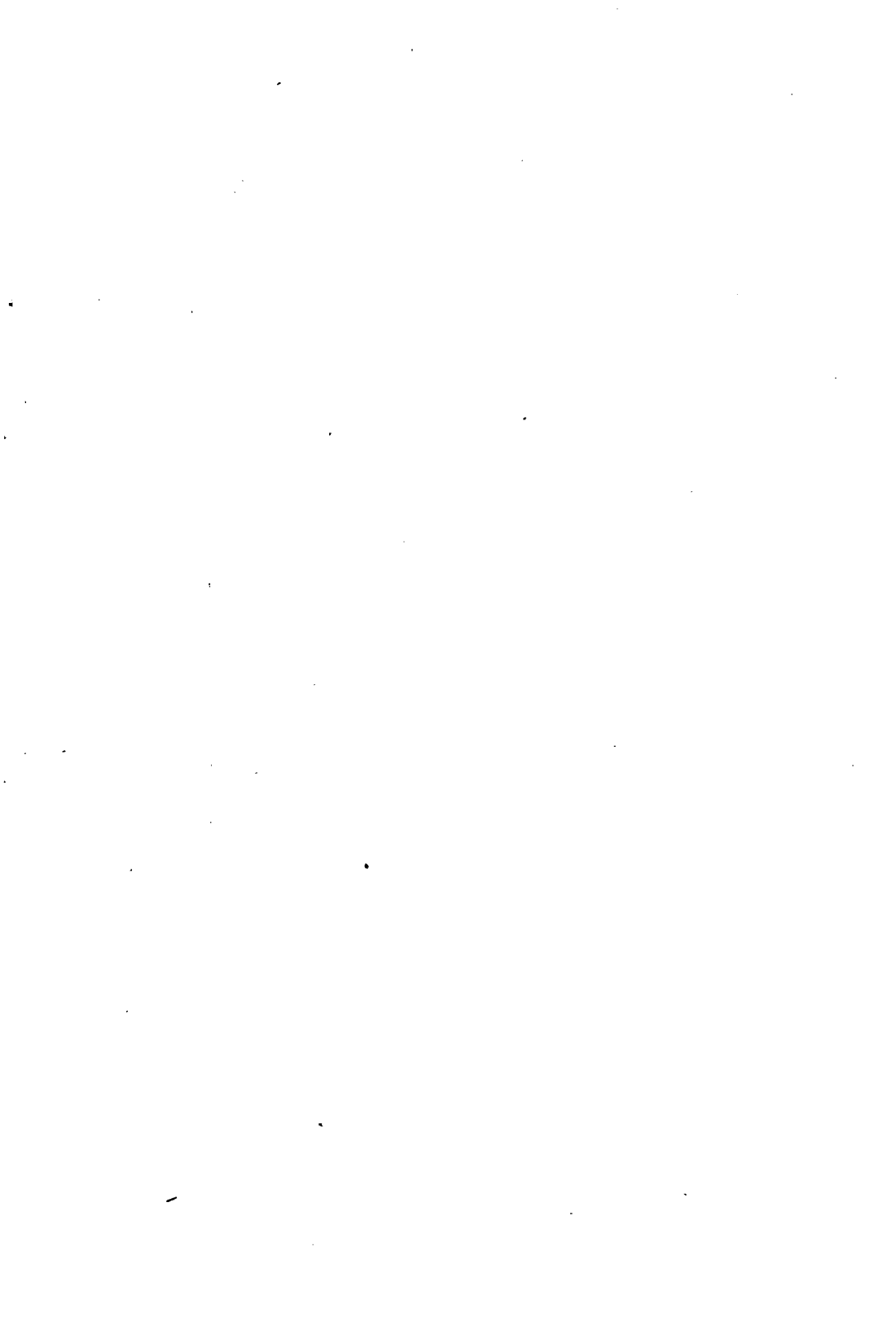


**BABAR BUILDING COMPANY LIMITED**

Balance Sheet As at March 31, 1973.

	Without Price Level Changes	With Price Level Changes	Capital and Liabilities	Without Price Level Changes	With Price Level Changes.
	\$	\$	\$	\$	\$
Cash and Bank			Current		
Balance	180,000	180,000	Liabilities	62,000	62,000
Rent Recoverable.	24,000	24,000	Debentures	360,000	360,000
Land	200,000	400,000	Paid up		
			Common		
			Stock	600,000	1,200,000
Building Net	750,000	500,000	Retained	132,000	482,000
			Earnings		
	<u>1,154,000</u>	<u>2,104,000</u>		<u>1,154,000</u>	<u>1,104,000</u>

The basic object of the above exercise is to explain the method to be followed in working out results with price level changes. It would, therefore, be apparent that the position considerably changed after the impact of inflation was reflected in the financial Statements of the firm. So it is suggested that price level changes should be reflected in the financial statements of a firm.



## MANPOWER PROBLEM IN PAKISTAN

*Mohammad Nawaz\**

Economists are playing mythological Sisyphus, in controlling the widespread virus of unemployment. In Pakistan the present Government has embarked upon ambitious programmes for the absorption of surplus manpower like NDVP, Peoples' Works Programme and National Service Corps Scheme. In the execution of these schemes, particularly NDVP, some problems have cropped up. The programmes initiated in the urban and rural areas are not going to absorb the surplus labour force. Moreover 17,000 volunteers of the NDVP, working in various commercial, industrial and educational centres are going to be laid off. For the solution of the problem we must understand its nature.

The problem of unemployment is very complex. There are many types of unemployment: under-employment, frictional unemployment, seasonal unemployment, technological unemployment and so on.

Its causes are as complex as are our present day social, economic and political institutions. No one element of our economic society can be singled out as the sole cause of unemployment. As the wheel of our economic society turns, the hand of guilt points first to one cause of unemployment and then to another. However it is untenable to deduce the cause of a phenomenon from the factors which create its forms rather than from the factors which express its essence. What is the essence of unemployment? For the job seekers it is material and intellectual privation, physical hardship and moral suffering. For the employers it is a reserve of cheap labour. Galbraith observes that unemployment is a disaster to working people. William Beveridge of Britain writes that unemployment is a personal catastrophe. It also causes non-restorable material and moral loss to the worker. So it is a great curse.

Although Pakistan has surplus-labour force yet employment has been a secondary objective of economic planning. It was generally

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added as an after thought to the growth targets of the plans. Employment objective has been the step-child of planning.

In Pakistan, which experienced a healthy growth rate during 1960s, unemployment increased, real wages of the workers declined by 33 percent<sup>1</sup> and concentration of industrial wealth became an explosive economic<sup>2</sup> and political issue. In 1968 when the government was celebrating the increase in growth rates, the system exploded not only for political reasons but for economic disparity<sup>3</sup>. We were told to take care of GNP and poverty will take care of itself. The planners often focussed their eyes on high growth rate as if it were the best guarantee for eliminating unemployment. The efforts of the planners on the growth rate front could not make a dent on the problem of mass unemployment. To make a beginning for the solution of the problem, a study of the magnitude of the problem is essential. As our labour force is heavily concentrated in the agrarian sector in the first section I will deal with the problem of under-employment and disguised - unemployment. In the second section I will take up the problem of unemployment among the educated youth. In the third, the experience of market economy will be discussed. In the fourth and fifth, I will consider the case of centrally planned economy. In the last section some suggestions will be given for the solution of the problem.

## I

### Disguised Unemployment

According to W.A. Lewis, "Disguised unemployment in agriculture means that there are too many persons on too little land".<sup>4</sup> While explaining the problem of under-employment and disguised unemployment, David Turnham says, "Even with unchanged techniques of

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1. Griffin & Khan, A.R. Growth and Inequality in Pakistan Macmillan, St.Martin Press 1972 PP. 204,205
  2. (i) Papanek G.F: Pakistan's Development Social Goals and Private Incentives 1967.  
(ii) White : Industrial Concentration and Economic power in Pakistan 1973.
  3. Amjad, Rashid : Industrial Concentration in Pakistan 1974.
  4. Lewis, W.A. : Economic Development with Unlimited supply of Labour The Manchester School. 1954.

production a large part of the population engaged in agriculture could be removed without reducing the agricultural output.<sup>5</sup> In Pakistan this problem has not been studied seriously. Some data has been collected which may be used as basis for the calculation of the rate of disguised unemployment. The survey covers Sheikhpur, Bahawalpur Lyallpur, Multan, Hyderabad, Baluchistan, & N.W.F.P. The survey was conducted through a questionnaire. The main fact about which information was sought from the peasants, artisans, and other workers at farms, was about the amount of work which they get during every 100 available days. The detail has been given in the following table.

TABLE - I

Area	<i>Ad</i>	<i>Wabs</i>	<i>Wass</i>	<i>Ubs</i>	<i>Uss</i>
Sheikhpura	100	70.1	57.1	29.9	42.9
Bahawalpur	100	68.3	50.7	31.7	49.3
Lyallpur	100	69.5	54.5	30.5	45.5
Multan	100	67.2	51.3	32.8	48.7
Hyderabad	100	69.1	53.9	30.9	46.1
Baluchistan	100	64.1	53.1	35.9	46.9
N.W.F.P.	100	67.3	50.1	32.7	49.9

Source:—Survey of 37 villages of Pakistan conducted by Afzal, M. Nawaz and Naveed.

From Table I we can get :

$$Udar^6 = 34.8 \text{ per cent.}$$

5. Turnnham, David : The Employment Problem in Less Developed countries.

Development Centre of the Organization for Economic Cooperation and Development.  
Paris 1971.

6. The various parameters and variables which are to be used in the Model are: (i) *Ad* = Available days (ii) *Wabs* = work available in

Various studies on underdeveloped countries give different rates of disguised unemployment. Turnham, while explaining invisible underemployment and disguised unemployment gives a rate of 29 per cent.<sup>7</sup>

A.K. sen<sup>8</sup>, S. Wellisz<sup>9</sup> and Leibenstein<sup>10</sup> have referred different cases. Rates mentioned by them varying from 30 per cent to 35 per cent. While discussing the Indian case, Primit Chaudhry has referred two rates: (a) a maximum rate of disguised unemployment varying between 36 per cent to 57.<sup>11</sup>

*Contd.*

busy season (iii)  $\dot{W}_{ass}$  = work available in slack season. (iv)  $U_{bs}$  = Unemployment in busy season

- (v)  $\dot{U}_{ss}$  = Unemployment in slack season.  
 (vi)  $P_o$  = Population in the base year.  
 (vii)  $P_t$  = Population in the terminal year.  
 (viii)  $P_{gr}$  = Population growth rate in Pakistan.  
 (ix)  $L_{fr}$  = Labour force ratio.  
 (x)  $R_{pt}$  = Rural Population ratio.  
 (xi)  $N_{whrsrt}$  = normal working hours ratio in a given time period.  
 (xii)  $A_{whrsrt}$  = Actual working hours ratio in a given time period.  
 (xiii)  $\dot{R}_{pt}$  = Rural population during January 1975.  
 (xiv)  $U_{dr}$  = Underemployment ratio.  
 (xv)  $\dot{U}_{dar}$  = Average rate of disguised unemployment in Pakistan.  
 (xvi)  $\dot{U}'_{dr}$  = Digised unemployment in the rural areas.

7. Turnham, David Op. cit. P-17
8. Sen A.K. Peasants and Dualism with or without surplus labour 1966.
9. Wellisz Dual Economies Disguised Unemployment and the unlimited supply of labour *Economica* Vol.35 No.137 Eob.1968.
10. Leibenstein A : theory of underemployment in backward economies 1966.
11. Primit, Chaudhry : Readings in Indian Agricultural Development.  
George Allen and Unwin 1972, P = 47

(b) A minimum rate of disguised unemployment in some of the Indian states vary between 26 per cent to 29 per cent.<sup>12</sup>

In "Asian Drama," G. Myrdal has also discussed this problem to some extent. He says that under unchanged production techniques, capital input, industrial framework and with only minor changes in the organisation of work, the same aggregate produce could be obtained even if a part of the labour force was removed.<sup>13</sup> While referring to the study of B. Datra, he says that 28 per cent of the labour force is wasted in agriculture in LDCs. Workers get work for 69 days in busy, and 58 days in the slack season out of every 100 available days<sup>14</sup> Taking the busy and the slack seasons together, cultivators and artisans are unemployed for 30 per cent and agricultural labourers for 35 per cent of man's labour days.<sup>15</sup> The ratio of Udr, referred by Desai<sup>16</sup>, Eicher<sup>17</sup>, Kendajin<sup>18</sup> and Ranis and Fei<sup>19</sup> is somewhat similar to the one calculated on the basis of table 1. Udr ratios vary between .348 to .35. If we consider the Indian case referred by Primit Chaudhry, the Udr is .26 in many of the Indian States. For our study, we may take  $Udr = .3$ .<sup>20</sup> Po in 1972 was 64.89 m<sup>21</sup> and

12. Ibid.

13. Myrdal, G. : Asian Drama pp. 1007—1008.

14. Ibid.

15. Ibid.

16. Desai M. and Mazundar : "A test of the Hypothesis of Disguised Unemployment" *Economica* Vol. XXXVII February 1970.

17. Eicher, C.K. and Anshel,—Disguised Unemployment in Agriculture.

18. Kenadjian, B.—Disguised unemployment in underdeveloped countries 1961.

19. Ranis, Gustav and Fei,—Development of the labour Surplus Economy, Theory, and Policy, Irwin Inc. 1964.

20.  $Udr = \frac{(Nwhrt - 100 \times Awhrt)}{Nwhrst}$

100

21. Afzal, Muhammad, 1972 census :—Population expected and actual. *The Pakistan Development Review* Vol. XII No. 2 Summer 1973. P—125

$Pgr = .036$ <sup>22</sup> and  $Rpt = .7$ <sup>23</sup> and we can calculate  $\overset{\prime\prime}{R}pt$  and  $\overset{\prime\prime\prime}{U}drt$  as under :

$$\overset{\prime\prime}{R}pt = Rpt [(po + po. Pgr) + (Pt^1 \times Pgr)]$$

$$\overset{\prime\prime}{R}pt = Rpt [(64.89m + 2.33m) + (Pt^1 + Pgr)]$$

$$\overset{\prime\prime}{R}pt = Rpt [(67.22m) + (67.22m \times .036)]$$

$$\overset{\prime\prime}{R}pt = Rpt [(67.22m) + (2.41m)]$$

$$\overset{\prime\prime}{R}pt = 48.74m$$

$$\overset{\prime\prime\prime}{U}drt = \left[ \frac{(\overset{\prime\prime}{R}pt.Rlf) (Nwhrt - \frac{100 \times Awhrst}{Nwhrst})}{100} \right]$$

$$\overset{\prime\prime\prime}{U}drt = \left[ \frac{(48.74m \times .32) (100 - \frac{100 \times 70}{100})}{100} \right]$$

$$\overset{\prime\prime\prime}{U}drt = 4.67 \text{ million}$$

This is the labour force in the rural sector of Pakistan whose marginal productivity is either zero or negligible. If it is put to other productive uses we can raise the level of national output and promote welfare function. Now let us take the problem of unemployment in the urban areas of Pakistan.

## II

### Unemployment in the urban areas of Pakistan

The exact magnitude of unemployment in the urban areas is not known. Some surveys conducted by various persons and institutions point to the fact that the problem is of huge dimensions. From the studies of Jozefowicz,<sup>24</sup> R. A. Karwanski<sup>25</sup> and

22. Ibid P—124

23. Nulty : Green Revolution in West Pakistan.

24. Jozefowicz A.—Unemployment Among the Educated Youth  
National Commission on Manpower and  
Education 1970.

25. Karwanski, R.A.—Education and the Supply of Manpower  
in Pakistan Part II  
Manpower Planning Project ILO/UNDP  
1970.



Year/month	Number of applicants 2									
	On live register at the end of previous Year/month	Registered during the year/month	Total Col. (2+3)	Placed in employment during the year/month		Registrations removed during the year/month		On live register at the end of the year/month Col. (4-5-7-)		
				Number	Percent of the total applicants	Number	Percent of the total applicants	Number	Percent increase(+)/decrease(-) over the previous Year/month	
1	2	3	4	5	6	7	8	9	10	
1969-70	1, 66, 480	3, 04, 423	4, 70, 903	57, 130	12. 14	2, 26, 007	47. 99	1, 87, 716	(+) 12. 75	
1970-71	1, 87, 716	2, 82, 029	4, 69, 745	65, 639	13. 99	2, 36, 826	50. 44	1, 67, 820	(-) 10. 92	
1971-72	1, 67, 220	3, 01, 589	4, 68, 569	48, 242	10. 29	2, 54, 146	54. 24	1, 66, 201	(+) 0. 81	
1972-73	1, 66, 201	2, 78, 970	4, 45, 171	42, 194	9. 48	2, 37, 609	53. 37	1, 65, 368	(-) 0. 50	
1973-74	1, 65, 368	2, 94, 975	4, 60, 343	53, 529	11. 63	2, 15, 316	46. 77	1, 91, 498	(+) 15. 80	
1973	Nov	1, 71, 148	23, 587	1, 94, 735	4, 379	2. 25	14, 736	7. 56	1, 75, 620	(+) 2. 61
	Dec	1, 75, 620	26, 538	2, 02, 158	4, 567	2. 26	21, 839	10. 80	1, 75, 572	(+) 0. 08
1974	Jan	1, 75, 752	24, 330	2, 00, 082	4, 461	2. 23	19, 486	9. 74	1, 76, 135	(+) 0. 22
	Feb	1, 76, 135	25, 171	2, 01, 306	4, 433	2. 20	19, 052	9. 46	1, 77, 821	(+) 0. 96
	Mar	1, 77, 821	26, 702	2, 04, 523	4, 532	2. 22	18, 340	8. 97	1, 81, 651	(+) 2. 15
	Apr	1, 81, 651	27, 112	2, 08, 763	4, 236	2. 03	15, 871	7. 60	1, 88, 656	(+) 3. 86
	May	1, 88, 656	23, 417	2, 12, 073	4, 876	2. 30	17, 670	8. 33	1, 89, 527	(+) 0. 46
	Jun	1, 89, 527	24, 302	2, 13, 829	4, 560	2. 13	17, 771	8. 31	1, 91, 498	(+) 1. 04
	Jul	1, 91, 498	24, 042	2, 15, 540	4, 708	2. 18	16, 193	7. 51	1, 94, 639	(+) 1. 64
	Aug	1, 94, 639	24, 421	2, 19, 060	4, 151	1. 89	15, 608	7. 12	1, 99, 301	(+) 2. 40
	Sep	1, 99, 301	20, 481	2, 19, 782	4, 069	1. 85	19, 421	8. 84	1, 96, 292	(-) 1. 51
	Oct	1, 96, 292	19, 414	2, 15, 706	3, 425	1. 59	17, 807	8. 26	1, 94, 474	(-) 0. 93
	Nov	1, 94, 474	24, 496	2, 18, 970	4, 024	1. 84	20, 499	9. 36	1, 94, 447	(-) 0. 01

Work performed by each employment exchange - November, 1974

Table - 3

Location of employment exchanges	Number of applicants								
	On live register at the end of previous month	Registered during the month	Total Col. (2+3)	Placed in employment during the month		Registrations removed during the month		On live register at the end of the month Col. (4-5-7)	
				Number	Percent of the total applicants	Number	Percent of the total applicants	Number	Percent increase(+)/decrease(-) over the previous month
1	2	3	4	5	6	7	8	9	10
<b>PAKISTAN</b>	<u>194,474</u>	<u>24,496</u>	<u>218,970</u>	<u>4,024</u>	<u>1.84</u>	<u>20,499</u>	<u>9.36</u>	<u>194,447</u>	<u>(-) 0.01</u>
(i) <u>Punjab</u>	<u>122,294</u>	<u>15,791</u>	<u>138,085</u>	<u>2,305</u>	<u>1.67</u>	<u>14,407</u>	<u>10.43</u>	<u>121,373</u>	<u>(-) 0.75</u>
Lahore	13,458	2,980	16,438	431	2.62	1,536	9.34	14,471	(+) 7.53
Rawalpindi	21,942	1,757	23,699	234	0.99	6,169	26.03	17,296	(-) 21.17
Multan	13,182	1,398	14,580	256	1.76	813	5.58	13,511	(+) 2.50
Lyallpur	11,240	1,111	12,351	129	1.04	1,025	8.30	11,197	(-) 0.38
Bahawalpur	9,383	755	10,138	185	1.82	197	1.94	9,756	(+) 3.98
Sahiwal	3,984	700	4,684	54	1.15	486	10.38	4,144	(+) 4.02
Gujranwala	3,451	880	4,331	188	4.34	498	11.50	3,645	(+) 5.62
Sialkot	5,373	552	5,925	63	1.06	246	4.15	5,616	(+) 4.52
Jhelum	4,320	577	4,897	60	1.23	531	10.84	4,306	(-) 0.32
Sargodha	5,454	543	5,997	56	0.93	365	6.09	5,576	(+) 2.24
Campbellpur	4,265	357	4,622	54	1.17	159	3.44	4,409	(+) 3.38
Gujrat	3,466	450	3,916	103	2.63	472	12.05	3,341	(-) 3.61
Jhang	2,672	347	3,019	93	3.08	259	8.58	2,667	(-) 0.19
R. Y. Khan	3,730	618	4,348	84	1.93	218	5.01	4,046	(+) 8.47
Sheikhupura	4,095	585	4,680	81	1.73	243	5.19	4,356	(+) 6.37
Mianwali	3,890	260	4,150	28	0.67	131	3.16	3,991	(+) 2.60
D. G. Khan	2,277	472	2,749	59	2.15	325	11.82	2,365	(+) 3.86
Muzaffar Ghar	4,006	686	4,692	130	2.77	441	9.40	4,121	(+) 2.87
Bahawal Nagar	2,106	763	2,869	17	0.59	293	10.21	2,559	(+) 21.51

(28)

Location of employment exchanges	Number of applicants								
	On live register at the end of previous month	Registered during the month	Total Col. (2+3)	Placed in employment during the month		Registrations removed during the month		On live register at the end of the month Col. (4-5-7).	
				Number	Percent of the total applicants	Number	Percent of the total applicants	Number	Percent increase(+) decrease(-) over the previous month
1	2	3	4	5	6	7	8	9	10
(ii) <u>Sind</u>	<u>33,817</u>	<u>5,081</u>	<u>38,898</u>	<u>1,060</u>	<u>2.73</u>	<u>3,881</u>	<u>9.98</u>	<u>33,957</u>	<u>(+) 0.41</u>
Karachi	15,612	2,511	18,123	542	2.99	1,492	8.23	16,089	(+) 3.06
S. I. T. E. Karachi	12,916	894	13,810	227	1.64	1,538	11.14	12,045	(-) 6.74
Landhi	1,008	176	1,184	38	3.21	117	9.88	1,029	(+) 2.08
Hyderabad	2,369	656	3,025	179	5.92	246	8.13	2,600	(+) 9.75
Sukkar	1,912	844	2,756	74	2.69	488	17.71	2,194	(+) 14.75
(iii) <u>N. W. F. P.</u>	<u>35,472</u>	<u>3,397</u>	<u>38,869</u>	<u>572</u>	<u>1.47</u>	<u>1,953</u>	<u>5.02</u>	<u>36,344</u>	<u>(+) 2.46</u>
Peshawar	6,430	886	7,316	149	2.04	795	10.87	6,372	(-) 0.90
Kohat	3,220	492	3,712	133	3.58	186	5.01	3,395	(+) 5.37
D. I. Khan	2,443	122	2,565	16	0.62	146	5.69	2,403	(-) 1.64
Mardan	6,776	333	7,109	48	0.65	245	3.45	6,818	(+) 0.62
Swat	3,354	195	3,549	16	0.45	150	4.23	3,383	(+) 0.86
Abbottabad	8,171	563	8,734	55	0.64	359	4.11	8,319	(+) 1.81
Tarbela	2,972	075	3,647	137	3.76	—	—	3,510	(+) 18.10
Bennu	2,106	131	2,237	19	0.85	72	3.22	2,146	(+) 1.90
(iv) <u>Baluchistan</u>	<u>2,891</u>	<u>227</u>	<u>3,118</u>	<u>87</u>	<u>2.79</u>	<u>258</u>	<u>8.27</u>	<u>2,773</u>	<u>(-) 4.08</u>
Quetta	2,891	227	3,118	87	2.79	258	8.27	2,773	(-) 4.08

Source : Directorate of Labour Welfare, Govt. of Punjab, Baluchistan & N. W. F. Province.

Table — 4

(30)

## Number of job seekers registered, placed and remained on live register by level of education

Level of education	April - June, 1974						
	On live register at the end of the previous quarter.	Registered during the quarter.	Placed in employment during the quarter.		Registrations removed during the quarter.	No. of applicants on live register at the end of the quarter.	
			Number	Percent of the total applicants			
1	2	3	4	5	6	7	
<b>TOTAL</b>	181,651	74,831	13,672	5.33	51,312	191,498	
1. Illiterate	44,125	19,476	4,173	5.56	16,203	43,225	
2. Below Matric	46,358	23,921	4,940	7.03	14,292	51,047	
3. Matric	57,708	19,614	2,429	3.14	12,498	62,395	
4. Matric & Post Matric Certificate Holders.	21,016	8,459	1,742	5.91	5,009	22,724	
5. Matric & Post Matric Diploma Holders.	3,547	775	151	3.49	954	3,217	
6. Polytechnic Graduates.	1,146	504	64	3.88	428	1,158	
7. Graduates	6,339	1,819	160	1.96	1,761	6,237	
a) Arts	3,559	1,124	114	2.43	1,098	3,473	
b) Commerce	449	132	19	3.27	103	459	
c) Science	642	226	16	1.84	292	580	
d) Engineering	670	142	1	0.12	60	751	
e) Education	829	168	10	1.00	194	793	
f) Others	190	27	—	—	16	201	
Post Graduates.	1,412	263	13	0.78	167	1,495	
a) Arts	662	144	7	0.87	90	709	
b) Commerce	128	13	—	—	4	137	
	258	33	2	0.60	18	311	

(31)

Ruud,<sup>26</sup> we get a rate of unemployment varying from 17 per cent to 21 per cent. Manpower council studies, state that the educated labour-force grows at the rate of 7.6 per cent and the number of new enterants in the labour-force is about half a million.<sup>27</sup> Another source which provides facts about the nature of the problem in the employment exchanges.

The figures supplied by them show the acuteness of the problem. At the same time we must know that employment exchanges provide partial facts. According to G. Myrdal. "The labour exchange returns are very unreliable indicators of the volume of unemployment in the urban centres."<sup>28</sup> The reason is that these centres are not greatly helpful in the provision of jobs. Moreover there is no monetary incentive for registration. Myrdal says: "The absence of any unemployment compensation scheme removes much of the incentive to register."<sup>29</sup> Anyhow employment exchanges do provide us with some data for understanding the magnitude of the problem. According to table—2, 1,65,368 persons were on live register and 2,94,975 were registered during the year 1973-74<sup>30</sup>. Total manpower absorbed by the employment exchanges were 4,60,343, against which 53,529 (i.e, 11.63 per cent) were placed in employment.<sup>31</sup>

From Table—3, we get some data for the analysis of the problem at the provincial level In Panjab 1.38 lac persons were registered and 2,305 (i.e. 1.67 per cent) were provided with jobs during November, 1974. During the same period in Sind, N.W.F.P. and Baluchistan,

26. Ruud Kaare—An Exercise in Projecting Manpower and Education Requirements of East and West Pakistan 1961—1990.

27. (i) Monthly Statistical Bulletin Vol. 22 No. 12 Dec. 1974 P—103.

(ii) Probe in the question of Unemployment Amongst Educated Youth Manpower Council 1968.

(iii) Educated Manpower and its pattern of utilisation, Manpower Council, 1968.

(iv) Unemployment Amongst the Educated youth Manpower Council, 1970

28. Myrdal G. : Asian Drama P—1022

29. Ibid P—1021

30. Table —2

31. Ibid

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28. Myrdal G. : Asian Drama P—1022

29. Ibid P—1021

30. Table —2

31. Ibid

out of 38,898—38,869 and 3,118 registered persons, 1,060—572 and 87 persons were placed in employment respectively.

The position of job-seekers, on the basis of literacy is given in Table—4. Persons on live register and registered during April-June 1974 at Matric, post matric certificate and Diploma holders, polytechnic Graduates, (Arts, Commerce, Science, Engineering and Education) levels were respectively, 77,322—,33,797—,1,650—,8,158—, and 1,675 against which 2,429 (3.4 per cent), 1,893 (4.7 per cent), 64(3.88 per cent), 160 (1.96 per cent) and 13 (0.78 per cent) persons respectively were placed in different jobs

The N.D.V.P. has been started to help the unemployed.

TABLE—5

## GOVERNMENT OF PAKISTAN

N.D.V.P.

Statement showing details of the stipend of Volunteers for January 1975

S. No.	Categories of Volunteers	Date of V. stip	No. of V.	Amount	Placed in job
1.	Post Matric	235	1308	3,05,700.00	
2.	BA/B.Sc./B.Com./Bed	260	1137	2,92,240.00	.98%
3.	B.A./B.Sc./B.Com. (Hons) (B. Tech.)	285	38	9,975.00	
4.	M.A./M.Sc./M.Com. MBA/B.Sc./Engg.	335	1345	4,46,715.00	
5.	M.Sc. Engg.	385	2	770.00	
6.	Ph. D.	485	3	1,455.00	
			3,833	10,56,855.00	0.95%

This scheme has failed to solve the problem of unemployment. There are various misconceptions about the scheme. It is not absorbing the educated unemployed. In fact it provides some financial relief to the educated youth who are seeking jobs. It is a programme under which unemployment compensation is given to the jobless persons : @ Post Matric Rs. 235, Graduates Rs. 260, Graduates (hons) Rs. 285, Post Graduates Rs. 335, Ph. D. 485), The performance of various offices of N.D.V.P. has been very poor. We may take the case of Lahore office of N.D.V.P. where during February, 1975, 3,833 persons.

were registered and those provided with jobs were less than one per cent. The detail has been given in table 5. As the N.D.V.P. scheme has failed to absorb the educated youth in productive jobs, the survey of Punjab Planning and Development Department which was conducted some time back, still holds good. From the following survey.

#### Results of the Survey of Educated Unemployed in Lahore

<i>Qualifications</i>	<i>Total number covered</i>	<i>Number of unemployed</i>	<i>Percentage of unemployed</i>
A. Matric	164	32	19.5
Intermediate	87	5	5.8
B. Degree level	<u>74</u>	<u>21</u>	<u>28.4</u>
Arts	53	15	28.3
Science	21	6	28.6
C. Post-Graduate level.	<u>59</u>	<u>25</u>	<u>42.4</u>
Arts	49	21	42.9
Science	10	4	40.0
D. Professional & Technical	60	16	26.7
Total (A + B + C + D)	444	99	22.3

Source :—Planing and Development Department, Punjab.

It is evident that average rate of unemployment is 22.3 per cent. The problem is acute at degree and post-graduate level and the rates of unemployment are 42.9 and 40 per cent respectively. Unemployment at the degree level is 6 per cent above the average rate. This average rate of 22.3, per cent is similar to the one calculated by the Jozefowicz<sup>32</sup>, R.A. Karwanski<sup>33</sup> and Ruud Kaara<sup>34</sup>. If we take into consideration the facts given in table—2,3 and 4 the rate of unemployment in the urban areas of Pakistan is about 29 per cent<sup>35</sup>.

32. Jazefowicz op. cit.

33. Karwanski op. cit.

34. Rund Kaare op. cit.

35. Monthly Statistical Bulletin

Vol.22 No.12 December.

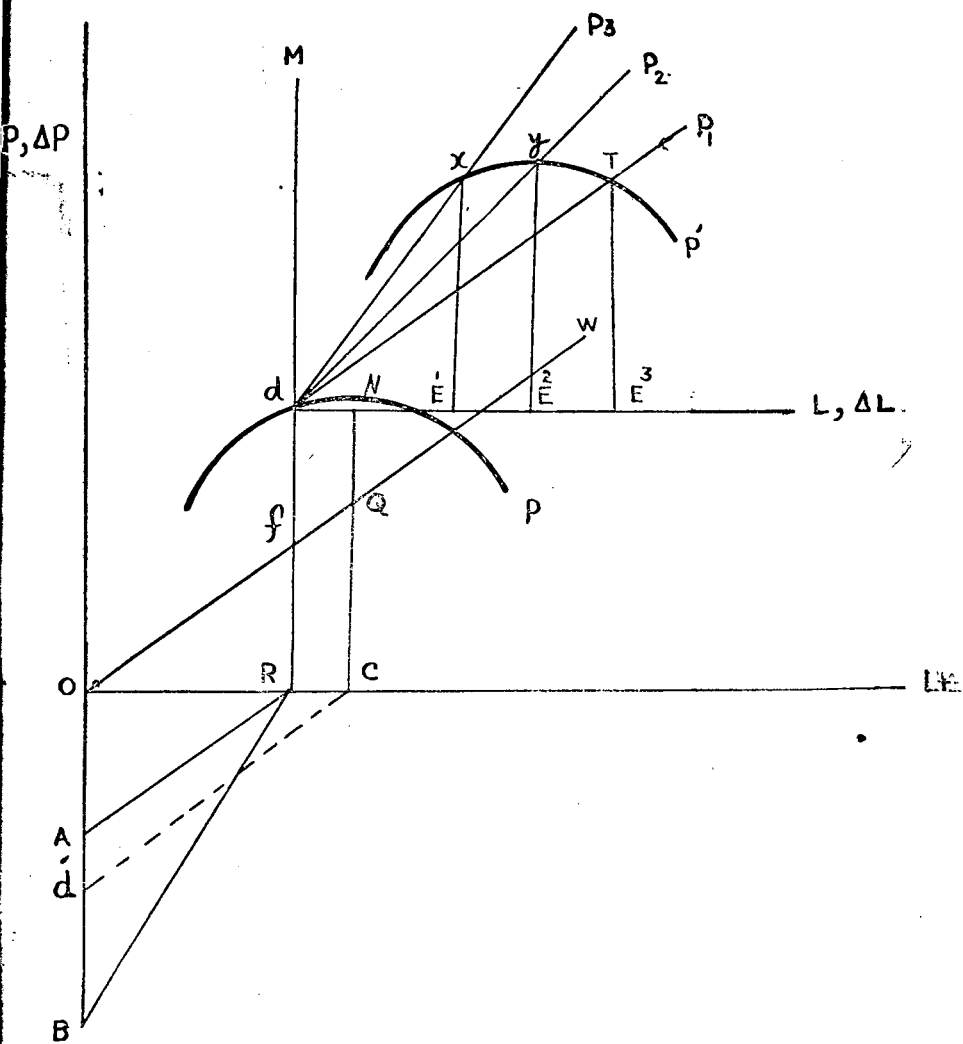
In this section I have viewed the overall trends and nature of unemployment particularly among the educated youth, in the urban areas. After looking through the telescope from both the ends, we can examine how our manpower is being wasted and the problem of unemployment and disguised unemployment has assumed high proportions ! Before this very force sinks under the avalanche of privation, physical hardship and moral suffering, we must come out with some solution, to which, I turn now.

### III

#### Employment Under A Free Market System

One conventional way to analyse and solve the problem has been to consider one or two important causes of unemployment. Through this policy of considering an apex of the vast pyramid, we have failed to generate sufficient investible-surplus to be used for manpower absorption. Anyhow for the solution of the problem under free market system, we will have to eliminate the causes of unemployment. As for Pakistan the causes are : recurrent gaps in effective demand and effective supply, ineffective system of our employment exchanges, lack of vocational training, slow pace of capital formation, low rate of saving and investment, capital intensive techniques, defects in the educational system and the pressure of population. Normally these and some other causes are considered to be responsible for the high rate of unemployment in Pakistan. While eliminating these causes, we will have to generate sufficient investible-surplus which should absorb the maximum number of our unemployed labour force. This may be through labour-intensive technique. Here a school of thought has emerged advocating the choice of capital intensive technology, even in labour surplus economics. Its argument usually rests on some such assumptions as: (i) saving out of profit is unity, hence it can promote investment and increase profit, where-as saving out of wages is zero. (ii) output per worker is simply a function of capital. They hold that if labour-intensive technology is used more of the total output will get distributed in favour of wage sector which does not save. In this case less reinvestment will be possible and a lower rate of growth will result than the one which would result from capital intensive technology. The opponents say it is simply absurd. Such an argument, however, attractive it may appear as an intellectual exercise, is neither correct analytically, nor valid in the historical perspective of past development, nor acceptable politically in Pakistan. If all the unemployed workers are absorbed with a given amount of capital, total output will increase, enabling both the wages and profit to rise even under the





so-called free market mechanism. Side by side, there should be an effort to increase the investible surplus which is needed for additional job opportunities. Prof. Galenson and Leibenstein<sup>36</sup> have given a formula for this:

$$r = \frac{P \cdot e \cdot W}{C}$$

by dividing both the numerator and denominator with (e) we get:

$$r = \frac{\frac{P - W}{e}}{\frac{c}{e}} = \frac{Pc - W}{a.w.}$$

where P = output per machine

e = number of workers per machine

W = cost of machine

Pc = Product per labourer

a.w. = value of capital per labourer =  $\frac{c}{e}$

The surplus generated should be of such amount which should absorb maximum number of unemployed. It has been explained with a diagram. It deals with such production function which generate, P and P' output with labour and capital as inputs.

Through this production function we have initial investible surplus  $R_d - R_f = f_d$ . Now  $f_d$  should be used in a way that it should absorb unemployed labour force which is AB. Due to technological and other production constraints we can provide jobs upto E2. This technique will be more labour intensive and we can get maximum output Y and after that there will be decline in P'. Even with labour intensive technique we cannot solve the problem of unemployment because in our model for a free economy additional employment is E1 E2 where as  $E1 E2 < AB$ . So in Pakistan, (where saving ratio has been very low<sup>37</sup> and there have been saving and trade gaps, due to

36. Galenson and Leibenstein, Investment Criteria, Productivity and Economic Development. *Quarterly Journal of Economics* August 1965 referred by A.K. Sen in Choice of Techniques P-16.

37. Documents of 1st, 2nd, 3rd and 4th Five Year Plans, Planning commission, Government of Pakistan.

which there has been a torrential flow of foreign aid,<sup>38</sup>) all the techniques of production have failed to absorb the unemployed labour force. AB has always been longer than  $E^1 E^2$  and there has been failure on employment front. Some think that viewing one cause or another is a micro-view of the problem. According to this school of thought unemployment is inherent in the free market system and these causes are the product of the free enterprise system<sup>40</sup>. If you do away with this system, you can achieve full employment.

Under a system of private enterprise, the decisions of the employers determine the amount of employment offered to the working population. The entrepreneurs themselves are subject to decide one way or another and the decisions of each influence the decisions of the rest. There is no central control, on plan of action and whatever actually occurs in economic life is the result of innumerable independent individual decisions. The course which is best for each individual to pursue in his own interest is rarely the same as the course calculated to promote the interests of the society as a whole. If the free market economy appears fantastic when food stuffs are destroyed while men go hungry (as happened during 1920,s) we must remember that is not surprising that interaction of free individual decisions should lead so often to irrational and bewildering results.

Under the market, goods and services are produced in order that they may be sold profitably. Thus the output of goods and services that will be produced depends upon the demand for them. "Demand implies money expenditure, not desire, or need, no matter how great a man's need may be for goods to feed and clothe. Unless one has money to pay need does not constitute demand." The problem of unemployment arises due to gaps in aggregate demand and aggregate supply. Some times there is depression and some times there is the problem of stagflation and recession. Under depression aggregate demand lags behind aggregate supply. Under such condition men are out of work, machines are idle, and land falls out of cultivation. Output starts falling due to deficient demand, while needs are not satiated. Under

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39. Ibid.

40. Marx, Karl : Capital Volume I, PP,600, 604 Progress Publishers, Moscow.

38. Ibid

the system of private enterprise the main motive is profit.<sup>41</sup> When there is no profit margin goods are not supplied in the market. People are unemployed, without purchasing power and cannot buy anything from the market. There may also be deaths due to starvation. This is due to economic convulsions which sometimes take the shape of depression, recession and stagflation. Sometimes there are the periods of expansion, prosperity and greater opportunities for employment for the job-seekers. In 1920's, the capitalist world was in the grip of a severe depression. There was mass-unemployment of 3,70,00,000. According to J.K. Galbraith 1,30,00,090 persons were without jobs in the U.S.A. in 1933<sup>42</sup>. Even today, the so-called free world is faced with the problem of unemployment and the theoretical concepts are undergoing radical changes. In the U.S.A. the rate of inflation is 15 per cent and unemployment has reached the figure of 85 lacs (i.e. 9 percent).<sup>43</sup> According to the I.H.T., 81,76,000 persons are unemployed in the U.S.A.<sup>44</sup>

This shows, that with an increase in the rate of inflation there is also an increase in the rate of unemployment. This is not in line with the thought given through philips curves, after the 2nd world war. If we draw a philip curve now it will show a different tendency. According to Herschel I. Grossman,<sup>45</sup> the study by Philips, (1958) revealed two empirical regularities with regard to British cycles in unemployment and wage inflation, prior to 2nd world war. These same regularities appear also to characterise the experience of European and North American countries during the same period. Firstly the average relation between unemployment and inflation is inverse.<sup>46</sup>

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41. Houston H. Financial Policy in Wars and Slumps P.S. King and Staples Ltd. England 1944.
42. Galbraith, J.K. The Great Crash 1929
43. B.B.C. monitored in Lahore on 7th June 1975 at 6.10 A.M. (local time).
44. Business and Finance Section, International Herald Tribune Published with the New York Times and the Washington Post. Paris, 26th May, 1975
45. Grossman I. Herschel The Cyclical Pattern of Unemployment and wage inflation. *Economica* Vol. 41 No. 164 November 1975.
46. Johnson G. Harry Further Essays in Monetary Economics P-329 George Allen and Unwin 1972.

In other words, on average, the lower the unemployment rate, the higher the rate of wage inflation, the lower the unemployment rate, the greater the increase in the inflation rate associated with a further decrease in the rate of unemployment. "These days the pattern of unemployment and wage inflation seems to have changed".<sup>47</sup>

When inflation has accelerated, often unemployment has initially decreased. However in the final stages of accelerating inflation unemployment has increased.<sup>48</sup> This condition prevails in today's free enterprise system<sup>49</sup> of the U.S.A. and Western Europe. In the U.S.A. and the U.K. both rate of inflation and unemployment are rising. If we follow their model, we cannot get rid of the problem of unemployment in Pakistan. However we can learn from the full-employment experience of a centrally planned economy.

#### IV

#### Full-Employment Experience of a Centrally Planned Economy

Now we turn to the experience of full-employment in a centrally planned economy. In the planned economy, both the effective demand and the necessary amount of goods can be precisely determined in advance. The balance-sheet of the income and expenditure of the population enables the planning bodies to establish correct proportions between the effective demand and supply of the people. This can be done because market relations are allowed much less leakage under socialism than under capitalism. Socialist enterprises do not need an open market to realise their output and to buy raw materials. They produce the goods and receive the supplies of raw material according to material and technical supply plans. The demand and supply of commodities on the market is accounted and planned by the planning agency. According to G. Sorokin.<sup>50</sup> "In the U.S.S.R. planning of commodity production

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47. Ibid.

48. Ibid.

49. ROSS A. Stephen and Wachter : Wage Determination, Inflation and Industrial Structure"

*The American Economic Review* September 1973 Vol.63 No.4 P.691

50. Sorokin G. : Planning in the U.S.S.R., Problems of theory and organization.  
Progress Publishers 1967.

and the volume of the state and co-operative trade, is possible only because the bulk of these commodities is produced in socialist enterprises and the bulk of the people's income (i.e. effective demand) consists of easily accounted payments by state organisation and enterprises." So there is always a balance in the effective demand and effective supply. No gap is allowed to generate any crisis; hence the problem of unemployment is controllable.

The method adopted in the U.S.S.R. is such that inter-sectoral and intera-sectoral balance is also maintained while doing away with the problem of unemployment. Mr. N.P. Fedorenko<sup>51</sup> has given the following model for the final product growth rate through which some specific number of job-seekers is absorbed :

$$\hat{g} = \frac{Qx(1+w)}{g+Q} \left\{ a_1 + a_2 + a_3 \left( g - \frac{q}{Q} + a_3 \left( \frac{N/L}{N/L} \right)' \right) \right. \\ \left. + \pi + a_2 + (s_1 + a_2 I) (1+g)y_0 \right]$$

$$\frac{q}{Q} = a_2 \left( \frac{K/L}{N/L} \right)' + a_3 \left( \frac{N/L}{N/L} \right)' + g \left\{ 1 - \frac{g+Q}{Qx(1-W)} \right\}$$

where  $\hat{g}$  = the final product growth rate ;

$\frac{q}{Q}$  = per-hour output growth rate;  $a_1, a_2, a_3$  = parameters for distribution of the national income respectively for primary income of the population, profit and rent ;

$\left( \frac{K/L}{N/L} \right)'$  = assets-per-man growth rate,  $\left( \frac{N/L}{N/L} \right)'$  = rate of change in input of land values per man-hour;  $Q$  = standard rate of response in delay of resources final product fixed lag :

$X$  = resources co-efficient ;

$C$  = number of enterprises growth rate ;

$W$  = economies by change of production scale :

$I$  = autonomous technical progress

$S_1$  = share of accumulation in final product ;

$S_2$  = share of renovation in final product ;

$Y_0$ , is the initial value for final product.

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51. Fedorenko N.P.—Optimal Functioning system for a Socialist Economy. Progress Publishers 1974.

This is how growth is planned in a scientific way, while making projections for final product growth rate, investment ratio, rate of depreciation and employment growth rate (job-creation).<sup>52</sup> According to Yefimov and Anchishkin the volume and rate of population growth, the number of these engaged in material production and the rate of their increase, are most important in calculating the growth rate of Y and employment.<sup>53</sup> They consider population and labour force growth through these equations :

$$P = \frac{\Delta P_{t+1}}{P_t} = \frac{P_t \cdot b - P_t \cdot m}{P_t}$$

$$\text{Increase in labour force} = \frac{L_{t+1} - L_t}{L_t} = 1 + l$$

$$l = \frac{\Delta L_{t+1}}{L_t}$$

where P=size of population, "b" and "m" birth and death rates coefficients L=Labour. After making projections for labour force growth, steps are taken to absorb it in various sectors of the economy.

According to Miroshnichenko and Koval, an important task of national economic planning is to provide all branches of the economy with adequate manpower resources of the required skills. This is achieved by assessing the manpower requirements of the economy and checking them with the available manpower resources. With this strategy, during 1966—70 the requirements of the Soviet national economy for additional labour exceeded the number of young men and women reaching working age. This stage was not achieved overnight. There has been long list of economic problems for the manpower absorption.

During the first years of Soviet power, when many factories, transportation and communication system were devastated by seven years of world and civil war the number of unemployed in towns and cities was increasing. According to E.H. Manevich, "The number of not studying and gainfully employed young people at the age of

52. Fedorenko N.P.—Op. Cit. P—71.

53. Yefimov, A. and Anchishkin, K.A.,  
Economics Management Planning.  
Novosti Press Agency P—156

14 to 28 was 20,29,000 in 1923; 21,27,000 in 1924; 22,46,000 in 1925".<sup>55</sup> After the revolution millions of farmers got land free of charge. A turning point came when the U.S.S.R. started reconstructing her entire national economy through centralised economic planning.

Thousand of newly constructed enterprises in industry, transportation, communication and other sectors of the economy required millions of workers, hundreds of thousands of engineers, technicians, doctors and teachers. Meanwhile profound social and economic development was taking place in the countryside, large-scale co-operatives appeared and most of the peasants joined collective farms. According to Manevich unemployment started diminishing sharply in the country by 1926. In 1926—27, there was an annual number of 125.2 vacancies per 100 applicants for jobs.<sup>56</sup> In 1928—29, there were 174.4 vacancies per 100 applicant in all trades and professions.<sup>57</sup> In the first two years of the first 5 years plan period (1929—30) some 30,00,000 job-seekers found employment in all sectors of the national economy. The need for skilled manpower was being actually felt in 1929. In 1930, the various sectors of the national economy were short of about 5 lac skilled workers. By the end of 1930, the once so crowded employment exchanges were closed down. Unemployment was practically done away with in 1931. This is how a centrally planned economy achieved full-employment at a time when the so-called free-market system was caught in depression, due to which 3,70,00,000 persons were laid off.<sup>58</sup>

## V

### Manpower Utilization in China

At the time of liberation China had an acute problem of unemployment. The country had 4 million unemployed workers. According to Mr. Azfar, millions of tenants were under-utilised in the rural areas of China.<sup>59</sup> Mr. Azfar says, "In 1950, party directives were

54. Mirsohnichenko, B. and Koval, N. Fundamentals of Soviet Economic Planning P—213  
Novosti, Press Agency Publishing House  
1972.

55. Manevich, E.H.—"U.S.S.R.—Full-employment PP 11-12

56. Ibid

57. Manevich op. cit.

58. Galbraith op. cit.

59. Azfar Kamal—Chines Synthesis P—144

Ravi-Delmon Ltd. Karachi 1974.



issued that unemployed workers must be provided jobs step by step. With determined effort the problem was fully solved by 1958".<sup>60</sup> How was the problem of unemployment solved? The Chinese give a very simple answer which may be confusing at the first instance, but that is the only answer. They say it is due to the people. "As long as there are people, every kind of miracle can be performed."<sup>61</sup> To eliminate unemployment and rural under-employment, the Chinese started commune system. In 1958 the Chinese completed the socialisation of their agricultural sector. Now there are 25,000 communes.<sup>62</sup> After socialisation, it was possible to absorb the urban unemployed in the rural sector.<sup>63</sup> According to the same source, the vast rural region could absorb 37,50,000 urban residents.<sup>64</sup> In the rural sector, the production of agricultural tools, drainage pumps, diesel and gasoline engines, agricultural processing machines, threshers, chemicals and fertilisers absorbed the surplus labour force and enabled China to have two crops.<sup>65</sup> According to a Chinese source, the rural areas, which were devoid of industry throughout their long past are now dotted with small hydroelectric power stations and small factories producing steel, farm machinery, chemical fertilizer and cement.<sup>66</sup> All the counties have their own factories making and repairing farm machines.<sup>67</sup> This absorbed the job-seekers. The communes, which have done this, are fully autonomous units in the sense that they own source of production and formulate plans for their development. Through works programmes and building industrial units, the communes have absorbed innumerable works. For example, beginning in 1966, over 4,50,000 peasants dug a 250 kilometre canal which starts in Eastern Honan flows through Northern Anhwei and empties into Hungtse lake in Kiangsu Province. During the flood season,

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60. Ibid.

61. China Reconstructs November 1970—P-36.

62. People's Republic of China—An Economic Assessment P-118. U.S.A. 1972.

63. Kung-Jen, Jih Poa Peking—January 4, 1958 referred in An Economic Profile of Mainland China Vol, 2 Population and Manpower Resources Washington 1967.

64. Ibid.

65. People's Republic of China—An Economic Assessment Published from the U.S.A. 1972.

66. China Reconstructs P—6 January, 1975.

67. Cheng Shih : A Glance at China's Economy P—18 Peking 1974.

it diverts the water from 14 counties of the Huai River basin into the lake.<sup>68</sup> 1,00,000 persons from Honan Province worked for a whole winter in Anhwei Province digging 65 lac cubic meters of earth before going back to their own province to start dredging the To River.<sup>69</sup> 3 to 4 lac workers mainly commune members worked as main force every winter and spring to harness one or two major rivers.<sup>70</sup> Every year since 1952, 10,00,000 peasant builders marched to water conservation sites during off season. They raised 600 million cubic metres of earth and widened 4,000 kilo-metres of dykes along the Yangtse and Han Rivers. In 18 years, the people completed 4,00,000 water conservation projects on the Chiangnan plain. A few of the projects were financed by the state, the rest were financed and built by the local people themselves.<sup>71</sup> Taohing drill team of 1,205 which has become a model for workers had a drilling record of 1,00,000 metres annually.<sup>72</sup> This is how mass-mobilisation of unemployed and under-employed workers was done in China. How is this mass mobilisation possible? G. Myrdal says that mass-labour mobilisation is a natural process in an egalitarian society.<sup>73</sup> This is possible in China under their commune system and collective ownership of means of production. In Pakistan, we can mobilize the under-employed and unemployed labour force to some extent through the N.D.V.P, and Peoples' Works Programme but we cannot do away with the problem of unemployment. This is due to the reason that the social, economic and political institutions which prevail in China do not prevail in Pakistan.

## VI

### Conclusion

We play mythological Sisyphus when we take one or two causes of unemployment and try to solve the problem in a conventional way. It is like considering an apex of a vast pyramid. The problem is not merely rooted in less-developed system of employment exchanges, immobility of labour, lack of vocational training, population pressure, low pace of capital formation and lack of full utilization

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68. China Tames Her Rivers Peking 1972. P—22.

69. Ibid.

70. Ibid P—34.

71. China Tames her Rivers Peking 1972 P—45.

72. China Pictorial 1971 No. 9 P—4.

73. Myrdal G. : Asian Drama P—1362.

of industrial capacity ; it is also rooted in the political, economic and social institutions. These causes are the product of the economic system in which we live. This system has its own contradictions. When we want to solve one problem, the solution gives rise to another problem. During a period of rising cost of living, wage-increase is a relief which also causes further inflation. This is how we have one positive feed-back loop. This process continues and after a time we find multi-loop nonlinear feedback systems which operate in the economy. To give an example of contradiction in the capitalist system, consider the trend of a Philip curve. The average relation between unemployment and inflation is inverse i.e. the lower the unemployment rate, the greater the increase in the rate of inflation. Now consider the U.S.A. experience in the last quarter of 1974. During this period, there was a budgetary cut of \$ 4 billion to reduce the rate of inflation by 1 per cent. Due to this reduction in expenditure the rate of inflation did not decrease, however the rate of unemployment increased and 70,000 persons were laid off. We must realise the contradictions of the capitalist system, before seeking some solution under it. If we do not do it, we will continue playing Sisyphus. As we have been behaving like this, we have failed to mobilise our under-employed labourforce. In Pakistan disguised-unemployment is 4.67 million. In the urban areas N.D.V.P. is giving unemployment benefits to the educated-jobseekers, but it has failed in providing them with jobs. The average rate of unemployment of the educated youth is 22.3 per cent. Due to population pressure, the problem of unemployment is becoming acute. How to solve it ? There is a need for transformation of the society from capitalism to socialism. We must make our employment exchanges more effective. There should be desirable mobility of labour, which can be done through information media and financial support to the job-seekers. Our education system is theoretical-oriented; it should be biased towards more practical training which will be more productive and it will also create job opportunities. We must check our exploding population. We should raise saving and investment ratios and accelerate the pace of capital formation in the country because by installing new plants, we will create more jobs. To eliminate the problem of disguised unemployment in the rural sector mini-industrial plants for the production of agricultural tools, drainage pumps, diesel and gasoline engines, threshers and fertilisers, should be put up. Wherever possible mini-dams should be constructed. It will help in the provision of

irrigational facilities and generation of electricity. This programme will solve the problem of under-employment and disguised-unemployment. This very measure will be possible after transforming the society. In the urban areas we must impart vocational training to the unskilled jobless persons: side by side we must keep an eye on the growth rate of  $P = \frac{\Delta P_t + 1}{P_t} = \frac{P_t.b - P_t.m}{P_t}$  and try to reduce it.

Whatever the increase in the growth rate of labourforce that should be absorbed in the developing sectors of the economy. This is possible only in a centrally-decentralised-planned economy in which unemployment is eliminated.<sup>74</sup> "It is incompatible with the predominance of large-scale private ownership of the means of production which makes for anarchy in production, economic crisis and mass unemployment".<sup>75</sup> If we want to provide jobs to the jobseekers, do away with the problem of unemployment and save our labour-force from sinking under the avalanche of privation, physical hardship and moral suffering, we will have to learn from the full employment experience of China and the U.S.S.R.

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74. Planning for Economic Development Vol. II Part 2.  
Centrally Planned Economies P-83 U.N.O. New York—1965

75. Ibid.

# CURRENT INFLATION IN PAKISTAN : A CAUSATIVE ANALYSIS

*Sharafat A. Hashmi and Ahmad Faruqi*

This paper is an enlargement of our earlier paper presented to the Post-Budget Saminer at Karachi. It retains the basic theme that the current inflation in Pakistan is basically structural in character, that is, fundamentally a consequence of the variation in structural configuration of the economy. But this conclusion is now derived in a more comprehensive and elaborate manner, through testing against empirical data for the West Pakistan economy, relating to the period from fiscal 1959 to fiscal 1973.

Apparently, monetary influences account for a significant proportion of inflation in the less developed countries. In the final analysis, however, their role is seen to be "propagative" or catalytic, rather than autonomous. The inflationary process in developing countries is more conveniently dominated by the structural forces.

Here we have sought to examine the thesis of structural inflation utilizing the following six explanatory variables; (A) Ratio of deficit financing to money income ( $D/Y$ )\*; (2) Inter- sectoral terms of trade between agriculture and industry (Q). (3) Ratio of indirect taxes to total taxes (Z). (4) Ratio of the external sector to money income, ( $E/Y$ ). (5) Excess demand for agricultural output A; and (6) Inflationary expectations in the market, B.

We shall now treat each of these six variables in turn, discussing first the general theoretical aspect, analyzing next the empirical evidence available and, in conclusion, deriving some implications for economic policy.

## **Ratio of Deficit Financing to Money Income.**

The claim that monetary expansion plays a dominant role in the inflationary process rests upon certain restrictive assumption about the structure of the economy. It needs to be noted that the pressure

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\*Symbols within paranthesis are used to represent these variables in the regression equations.

exerted by monetary expansion varies in intensity with changes in the economic structure as well as with the composition of the monetary expansion.

Among the two principal components of monetary expansion, net borrowing in the government & private sectors, the former, that is, deficit financing, has a more potent demand-pull effect. However, the inflationary impact of this pull is conditioned by expansion in the supply of goods and services, that is, real income. In other words, part of this expansion is absorbed by growth in physical output. Moreover, during a period of rising prices, some additional supply of money has to be made available to meet the augmented transactionary demand. Hence the capacity of the economy to absorb new money expands *pari passu*. Naturally, deficit financing in excess of the absorptive capacity rather than its absolute magnitude should be treated as factor contributing to inflation. This is the rationale for using deficit financing per unit of money income (D/Y), a proper structural variable, to explain the rate of inflation.

We have used the annual percentage rate of change in the implicit price deflator (P) as a measure of inflation. Data on deficit financing and money income for West Pakistan were available only for the 3 fiscal years from 1971 through 1973. For the earlier fiscal years from 1960 through 1970, the corresponding magnitudes for undivided Pakistan were used. However, we are convinced that this procedure does not induce a 'structural break' in the D/Y series.

We later on incorporate the D/Y variable in a multiple regression equation involving the other 5 variables. Here we report the result we obtained when we tested D/Y for the significance of its individual contribution to inflation, utilizing a linear form. The equation is:

$$(1) \quad P_t = -1.1518 + 4.0836 (D/Y)_{(t-1)} \\ \quad \quad \quad (0.8562) \quad (6.4407)^*$$

$$R^2 = 0.79 \quad R^2 = 0.77 \quad F_{1,11} = 41.48 \\ \quad \quad \quad D.W. = 2.13$$

The equation establishes a one-year lagged relationship between D/Y and inflation. We found the unlagged effect to be insignificant. It is clear from equation (1) that, taken individually, the one-year

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\*The quantities within parenthesis under the constant term and the coefficient in this & all subsequent equations give the corresponding t-ratios.

lagged D/Y explains 77% of the inflation, the relationship being highly significant at the 99% level of confidence, and the regression coefficient being similarly significant at the 99.5% level.

### Intersectoral Terms of Trade

As the terms of trade of agriculture relative to industry improve, an inflationary propagation is impelled into the economy. This happens on the one hand due to the cost push influence exerted on industrial consumers of agricultural products, through the rising prices of agricultural raw materials. On the other hand a demand pull effect also becomes operative in response to augmented agricultural incomes.

In our case, we have found that the growth rate in the agriculture-industry terms of trade is highly significant in explaining movements in general price level. The simple linear regression equation obtained is as follows:

$$(2) \quad P_t = 5.1072 + 0.7183(Q_t)$$

(4.2345)      (3.3974)

where  $(Q_t)$  denotes agriculture-industry terms of trade :

$$R^2 = 0.49$$

$$-R^{-2} = 0.46$$

$$F(1,12) = 11.54$$

The effect of variation in intersectoral terms of trade conforms to our a priori expectation, that is, its positive linkage with inflation is established. It explains, taken individually, 46% of inflation, the relationship being, highly significant with only 1% margin of error. The regression coefficient in the equation is also significant at a very high level, with a confidence coefficient of 99.5%.

### Ratio of Indirect Taxes to Total Taxes

A direct relationship may be postulated on a priori grounds between inflation and the ratio of indirect taxes to total taxes. That is, other things remaining the same, higher the proportion of indirect taxes in the total taxation structure, higher is the rate of inflation. This follows from the fact that direct taxation dampens the demand pull effects by cutting down on disposable personal income. Where as, under market structures like ours, indirect taxes work in the opposite direction through the cost push influences. Moreover, indirect taxes create in the market, expectation about further acceleration in inflation, which is in itself strongly inflationary in character, as we shall see in a later section of this paper.

Concerning the data for this explanatory variable, a similar procedure was employed as for deficit financing ratio. The equation turned out to be better when the double-logarithmic form was tried. However, the linkage continued to be of a high order of significance in the linear form as well. We present both the equations as under:

$$(3) \quad \ln P_t = -16.299 + 4.7747 \ln Z_t \\ (-2.7955) \quad (3.6249) \\ (15 \text{ observations})$$

$$R^2 = 0.56$$

$$R^{-2} = 0.46$$

$$F_{.01}(1,13) = 13.14$$

$$(3a) \quad P_t = -138.1732 + 1.7092 Z_t \\ (-2.7131) \quad (2.8226)$$

$$R^2 = 0.40 \quad R^{-2} = 0.35$$

$$F_{.05}(1,12) = 7.9670$$

It would be noted that there is a positive linkage between the two variables and the relationship is significant at a very high level in both the formulations.

#### Ratio of External Sector to National Income:

As the share of the external sector rises in gross domestic product, the exposure of the company to the international price mechanism progressively increases. Strictly speaking, the actual as well as potential transmission to an economy of international influences depends entirely upon the openness of the economy.

Of course, a more "open" economy would be one where protective tariff, import licencing, export quotas, and exchange control regulations cause less interference with the free interplay of market forces. It would thus be appreciated that openness of an economy is basically a structural characteristic which is not easily measurable and it can be compared at two points in time only in qualitative terms. Nevertheless, such restrictive practices as mentioned above ultimately reflect themselves in the quantum of inflow and outflow of goods and services. It is, therefore, possible to employ the share of the external sector in national income as an indicator of openness of the economy. This is actually what we have done. We have used the average of exports and imports as a measure of the size of the external sector and its ratio to the national income ( $E/Y$ ) as an index of the openness of the economy.



This simple regression equation that we have obtained is:

$$(P_t) = - 9.4297 + 1.7662 (E/Y), \quad (14 \text{ observations})$$

$$(- 2.2290) \quad (+3.6775)$$

$$R^2 = 0.53 \quad R^{-2} = 0.49 \quad F_{1,12} = 13.51$$

The relationship is seen to be strong. Both, the coefficient of  $E/Y$  and  $R^2$  are significant at a very high level of confidence as the T and F tests indicate.

As far as the interpretation of this equation is concerned, a word of caution seems to be in order. The equation establishes a positive linkage between the openness of the economy and absolute prices. But this may not be true in all circumstances. We obtained a positive sign of the coefficient of  $E/Y$  perhaps for the simple reason that the period covered by our analysis witnessed persistent inflation in the world markets. It seems plausible that the increasing openness of the economy may as well accentuate the decline in absolute prices in domestic markets, in case the international markets are in the grip of a serious recession. Thus the sign of the coefficient in our equation has no theoretical or predictive value. Nevertheless, it does explain the structural nature of the current inflation in Pakistan.

### Excess Demand for Agricultural Output

It hardly needs elaboration that excess demand in the economy would positively effect inflation. However, as has been emphasized by many economists,<sup>1</sup> even though over-all excess demand in the total economy may be insignificant or nonexistent, the existence of excess demand in one or two important sectors has a strong inflationary potential, if prices in other sectors are rigid downward. Thus, for example, excess demand in agriculture would be expected to induce a rise in the general price level.

For testing this hypothesis, we have used the rate of growth of excess agricultural demand as defined by Argy<sup>2</sup> as an explanatory variable.

For purposes of measuring the excess agricultural demand, the following demand function is suggested by Argy

$$D = A.N.Y^{0.6}$$

<sup>1</sup>See our example, Charles T. Shulte, "Recent Inflation in the United States".

<sup>2</sup>Victor Argy, "Structural Inflation in Developing Countries", Oxford Economic papers, Vol.22, 1970.

where A is a constant and N and Y respectively denote population and national income.

This function postulates that the population elasticity of agricultural demand is unity and the income elasticity is 0.6. From this, the rate of growth of agricultural demand is seen to be

$$g(D) = g(N) + 0.6g(Y)$$

The rate of growth of agricultural supply is derived from the series of quantum indices of agricultural production. Defining excess demand as the proportion of demand to supply, we get the rate of growth of excess demand as the difference between the rates of growth of demand and supply.

It will be observed that much of this procedure hinges on the postulated demand function being empirically relevant. Given the alternatives, however, it appears to us to be a workable proposition.

The simple regression equation obtained is:

$$(P_t) = 3.4945 + 0.5414A$$

(2.4305)      (3.0219)

$$R^2 = 43 \quad \bar{R}^2 = .38 \quad F_{1,12} = 9.13$$

The relationship is positive and significant at the 1% level.

The regression coefficient is also significant at the 1% level.

### Inflationary Expectations.

The role of psychology in the economic process is perhaps most clearly perceptible in the context of rising prices. A continuing rise in prices so affects the dynamic expectations of the entrepreneurs and the consumers that they anticipate a further rise in prices in the future. Consequently, the entrepreneurs step up their investment spending, whereas the consumers start "stock piling" operations. The increased spending in turn gives a new flip to inflation. Thus inflationary expectations occupy a prominent place among causative factors of inflation.

Like other structural elements, the variable of inflationary expectations also poses serious measurement problems. However, several quantifiable magnitudes can be employed as indicators of changes in dynamic expectations. We have used, after Harberger, the difference between the percentage rates of change in absolute prices during the two preceding time periods as an indicator. The regression equation follows:

$$B_t = (P_{t-1}) - (P_{t-2})$$

Where  $B_t$  is the index of inflationary expectations, and  $(P_t - 1)$  and  $(P_t - 2)$  denote the growth rates in implicit price deflator lagged by one and two years respectively.

The resulting equation is :

$$(P_t) = 5.6174 + 0.6858 (B_t)$$

$$(3.5295) \quad (2.0367)$$

(13 observations)

$$R^2 = 0.29 \quad R^{-2} = 0.22 \quad F_{1,10} = 4.15$$

The regression coefficient is significant at the 5% level. Moreover, corroborating evidence was obtained when we added this variable to other explanatory variables, taken in various combinations, the adjusted  $R^2$  increasing in every case.

### Multiple Regression Analysis

It would be observed that we used the method of concomittant variation to establish separate linkages between certain structural variables and inflation. As a matter of fact, we tried several variables other than those discussed in the fore-going paragraphs. Out of all the variables tried, we selected six variables having highest correlation coefficients. Subsequently, we used the selected variables in a multiple regression equation to measure their combined effect. The following equation, which linearly explains the inflationary mechanism, was obtained :

$$P_t = -49.4932 + 0.1185 (At) + 0.1672 (Qt) \\ + 0.4280(E/Y) + 0.5397(Z_t) + 2.1173(D/Y)^{-1} \\ + 0.1872 (B_t)$$

$$R^2 = 0.95 \quad \bar{R}^{-2} = 0.91$$

$$F(6,6) = 20.48 \quad D.W. = 2.73$$

One direct consequence of combining the explanatory variables in a multiple relation was the multi-collinearity effect, which biased many of the standard errors upwards. However, inspite of this effect, the exceptionally high values of 0.95 and 0.91 were recorded for  $R^2$  and  $\bar{R}^{-2}$  respectively.

### Policy Implications

The above analysis validates our hypothesis of structural inflation in Pakistan. All of the six structural variables employed in the multiple regression equation are highly significant and together explain

95% variation in the index of inflation. Two policy implications follow :

1. The current inflation in our economy cannot be controlled by a conventional-type manipulation of the monetary and fiscal variables. For example a curb on monetary expansion may not operate in the desired direction unless the ratio of deficit financing to money income also declines. So long as our resources mobilization strategy continues to make indiscriminate use of deficit financing, a tight and/or dear money policy will fail to produce anti-inflationary results, even if the aggregate money supply is kept pinned to its existing level. Similarly an increase in the quantum of taxation may prove of no avail unless the taxation structure is changed to materially alter the share of indirect taxes in total tax revenue.

It is thus apparent that, in the present circumstances we cannot rely on ad hoc measures which are usually adopted under the pretext that inflation is a short-run phenomenon. A more comprehensive approach is needed which takes a long-run view of structural inflation.

2. Another policy implication which flows from our analysis relates to those explanatory variables which have a positive linkage with inflation but are not susceptible to anti-inflationary control. For example, it may not be economically advisable to check the increasing openness of the economy; or it may not be politically feasible to cause a reversal in the trend of intersectoral terms of trade. If such is the case, then the anti-inflationary measures shall have to be planned around a wider set of policy instruments. For instance, if the cost push influence of rising agricultural prices cannot be curbed, the demand-pull effect of augmented agricultural income may be toned down through agricultural income taxation.

In conclusion, we reaffirm our claim that the current inflation in Pakistan is best explained by structural elements. Our analysis can profitably be employed in controlling the present inflationary spiral, or in designing the policies and strategies around a planned rate of inflation.

# PAKISTAN : THE GREAT ECONOMIC DEBATE

*Akmal Hussain and R. Amjad*

In an economy under the grip of an inflationary spiral, the problem of rising prices clearly dominates the economic scene. But many economists, if not the general public, are fast realizing that more basic and fundamental economic issues are coming to the surface, and that we have reached a point of time where these basic issues must be resolved in one direction or the other. In the industrial sector, new investment has hardly been forthcoming as the crisis of "investors' confidence" still persists, although its need has become all the more pressing, since, we have reached full utilization of industrial capacity in almost all the essential industries<sup>1</sup> In the agricultural sector, the present wheat harvest displays the classical signs of a grain procurement crisis, as the rich farmers are hoarding their crop and refusing to sell it at the market price in the hope of creating shortages, hence, making bigger profits.<sup>2</sup>

The manner, in which these issues are tackled, is not simply a question of short-run policy measures but more fundamentally a question of alternative development strategies. Underlying these opposing strategies are conflicting visions of a future society. As one would expect, therefore, the economists are divided into two opposing camps regarding the kind, of measures which should be taken to resolve the crisis. At the risk of considerable over simplification, we have, termed these as the Right and Left Opposition. As the very names suggest, there are those who want the government to move in a direction which rehabilitates the private sector as the means of achieving economic growth and development and those who argue for a further socialization of the economy and to push the private sector into a far more subservient and limited role than it is now playing.

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1. Mr. Baqai in his Television Interview to discuss the Budget. Also see economic trends, Pakistan Economic Survey 1973-74. Government of Pakistan, Finance Division, Islamabad.
  2. Pakistan Times.

### Right Opposition

The right wing argues that private enterprise was the foundation of the dynamic growth of the sixties. Today, political imperatives may not allow private enterprise a dominant position in the economy, but, the private sector still has a role to play—albeit in conjunction with the public sector. Private enterprise could provide the financial and technological know-how, as well as a much needed boost to investment. They argue that, at present, potential investible resources, both in agriculture and industry, are being wasted because of an uncertain investment climate. For instance, the rapid increase in private agricultural incomes, following the green revolution, are being dissipated in luxury consumption, because, the capitalist farmers find no opportunity for 'safe' investment in industry. In the industrial sector, capitalists are either investing in trade<sup>3</sup> or transferring their savings abroad. If these savings and the technical skills are to be utilized, the Right argues that the government must end the present uncertainty regarding private enterprise. This can only be done if the government gives a constitutional guarantee against any further nationalization, opens up some of the industries in the public sector for private investment and adopts firm actions against labour strikes.

The Right Opposition's argument with regard to agriculture, is basically the strategy propounded by Sokolnikov and Shanin during the 1920's debate in Soviet Russia, or the strategy that M.U. Haq used for industry.<sup>4</sup> Briefly, the idea is that farmers should be allowed to enrich themselves. In doing so they will raise productivity and output in agriculture, and this output can later be taxed, and the agriculture surplus used for industrialization. Such a strategy would require agriculture to be the leading sector and although it will create rural income inequalities, what is important is that it would raise GNP.

The third element in the Right Opposition's standpoint is that foreign capital has a progressive role to play in Pakistan. They argue that foreign capital would transfer advanced technology and investment funds in an economy which is short of both. Hence, the logical policy, according to them, is to collaborate with foreign capital

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3. Pakistan Times.

4. M.U. Haq, Strategy of Economic Planning—The Case of Pakistan.

in both agriculture as well as industry. This appears especially desirable in a situation, where unlike the period of sixties, foreign capital seems prepared to invest in capital goods, intermediate goods and processing industries. There are two basic propositions in such an argument: firstly, that foreign investment results in transfer of resources from advanced capitalist countries to an underdeveloped country. Secondly, the fact that foreign capital is prepared to set up basic industries now, rather than assembly plants for consumer goods as in the past, means that the nature of foreign capital has changed qualitatively. So by allowing foreign capital to operate freely in intermediate and capital goods industries we will become more independent and acquire the capacity for self-sustained industrial growth.

### Criticism of the Right Opposition

The arguments advanced by the Right Opposition regarding agriculture, industry and foreign capital are subject to criticism not only on pure economic grounds but also more importantly because it would mean the perpetuation of the semi-feudal, semi-colonial nature of Pakistan's economic system.

In the field of agriculture, the sector which still dominates the economy, the present grain procurement crisis brings to the surface the basic contradictions involved in a strategy whereby the landlords should be allowed to enrich themselves. Azam's argument that we should not destroy the 'goose that lays the golden egg'<sup>5</sup> like that of Haq's that the 'capitalists should be bloated up at all cost' suffers from the same weakness that it assumes that these classes will reinvest the major portion of their income and hence increase the surplus available for investment.

It has been shown that income inequalities in the sixties did not lead to any increase in the average rate of savings, thus demolishing Haq's *raison d'être* of his growth strategy.<sup>6</sup> (The average mpc was about 11 per cent compared to the expected 30 per cent and fell to the dismal figure of 4 per cent in certain years). Increases in the level of national output, therefore, does not necessarily mean a higher amount being available for investment but can well mean a greater

5. K. M. Azam, A View of Agricultural Taxation (Mimeo) 1974, Paper presented at the 1974 Budget Seminar, Islamabad.

6. M. U. Haq, *op. cit.*

amount being utilized for consumption especially luxury consumption. This is the foremost lesson that was learnt from the experience of the sixties.

Therefore, to hope that in the seventies, agriculture through increase in income will provide the 'surplus' for economic development would be wrong for the simple reason that the feudal and capitalist landlords have a much greater reputation for conspicuous consumption. The present grain procurement crisis is basically the outcome of the desire of the bigger farmers to grab for themselves a much larger share in the national output than the government with its present tax exemptions and subsidies is prepared to provide them. They feel that the failure of the government to tax agriculture is only a reflection of their political power and that they can force the government into further concessions.

Any further increases in the prices of essential food items would mean a further squeeze on the workers as well as the small farmers (many having been forced to sell their grain to the government which they usually keep for their own consumption) and the landless labour, the bulk of the country's population. Also the fact that it would increase the demand for industrial commodities as well as imports (mostly luxuries) would push up prices of industrial goods and put further pressure on the balance of payment's position.

The increase in prices of industrial goods would bring forth further demands for increases in prices of agricultural goods, thus leading to a situation where this interaction would assume unmanageable proportions. The decision, therefore, to curb the purchasing power of the agricultural sector is one which can no longer be delayed.

Besides, the other implications of the rural inequalities that such a policy would create and the emergence of a Kulak class in agriculture that would make such a policy incompatible with the objective of achieving a socialist society, the theoretical basis of an agricultural-led-growth strategy are also quite invalid.

K.M. Azam (like his eminent predecessors in the 1920's in Russia) argues that agriculture should be the leading sector because it generates about 35 per cent of GNP as compared to the manufacturing industry which generates only 15 per cent. Such an argument is invalid because it looks at the two sectors statistically whereas the whole point about a development strategy is that it must look at the economy in dynamic terms. Agriculture may be a larger sector than



manufacturing and it may even have a greater productivity of investment (incremental output capital ratio) today. But this will not necessarily be so in the future. For, industry offers the possibility of continuous and increasing growth in productivity, whereas in agriculture the ceiling for productivity growth is very low. (It is determined by the technological limit of yield/acre and this rises only on rare occasions, when there is a break through in technology like the green revolution). Industry has the advantage of dynamic economies of scale (that is growth in productivity in response to growth in output due to embodied technical progress) as well as dynamic external economies (where inter-dependent industries mutually increase each other's productivity with growth in output). Thus, productivity in industry is likely to grow rapidly while that in agriculture will become zero when the technological limit of yield/acre is reached. It is clear, therefore, that growth of the industrial sector will become relatively larger too. Therefore, to base one's investment allocation decisions on the present size and relative productivity levels between agriculture and industry would be to condemn the economy to stagnancy in the future.

An even more fundamental drawback of the notion of "agriculture-based growth" is that the economy would be further integrated into the structure of international exploitation. If an economy is essentially specializing in agricultural goods it will suffer from the declining growth in international demand for these goods and the resource transfer resulting from the secular decline in the terms of trade. Thus, the strategy of agriculture as a leading sector would result in the exhaustion of growth in the future and a progressive loss of resources through international trade. Such a policy, far from being a "development strategy" is a prescription for perpetuating underdevelopment.

### **Criticism of the Role of the Private Sector in Industry**

The Left Opposition basically argues against the accommodation of the private sector in industry. The starting point of their argument is that the experience of the sixties has clearly showed the 'comparador' nature of the capitalist class and its failure to convert itself into 'national' capital. Also the political implications which would follow from re-accommodating this class are clearly unacceptable to the people especially the workers who launched the mass movement of the sixties to break the hegemony of the capitalists over the economy.

To see whether the private sector has still a dominating role to play in the industrial sector and the exact form it should take one must first study (even though briefly) the rise of this class especially in the sixties. The conversion of mercantile capital into industrial capital after the collapse of the Korean boom and the resulting controls on imports led to the emergence of this new capitalist class in the economy.<sup>7</sup> By its very nature the industrial boom of the early fifties could not sustain itself and the economy moved into subservience to foreign capital by the mid-fifties.<sup>8</sup>

In the sixties the military-bureaucratic oligarchy provided ideal conditions for the inflow of foreign capital into the economy. Although a large amount of foreign investment did come in, the major form of this inflow took the shape of so-called 'foreign aid' which was pumped into the industrial sector principally through foreign-controlled institutions like PICIC and to a lesser extent through the IDBP. This capital was channelised through the so-called monopoly capitalists who were in fact simply 'comprador capitalists' playing the role of providing outlets for foreign capital to exploit the domestic economy. This was done through paying back of high rates of interest on 'borrowed capital', paying higher prices for imported capital goods and providing a market for them; and finally by supplying them with cheaply processed goods mostly textiles which were highly subsidised by the domestic economy.

The fact was that this 'comprador' capitalist class never outgrew its dependence on foreign capital and hence failed to convert itself into 'national' capital. The left Opposition puts forward evidence to support this point by looking at the industrial boom of the sixties.

The very close collaboration between the industrial boom and foreign aid can be seen from the fact that once 'foreign aid' inflows were reduced after 1964 the industrial sector was never able to recover from this loss. Although Haq had publically put forward the view

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7. (a) G. F. Papanek and S. R. Lewis: *Pakistan: Industrialization, and Trade Policies* (London: Oxford University Press, 1960).  
(b) H. Papanek: *Pakistan's Big Businessmen: Muslim Separation, Entrepreneurship and Partial Modernization Economic Development and Cultural Change* Vol. 21, No. 1, October 1972.
8. R. Amjad: *Industrial Concentration and Economic Power*, South Asian Institute, Punjab University Lahore, Monograph, 1974.

in 1964 that the economy would not collapse once foreign aid was stopped, events that followed failed to bear him out. The dependence of domestic capitalists on 'foreign aid' was such that once it was slowed down investment trailed off never really to recover after 1964 till its final collapse in 1968—69.

The second argument put forward to show the subservient nature of the comprador capitalists is the utter failure of domestic capital to move away from consumer goods industries to more basic industries as this was simply not allowed by the foreign capitalists. The outright rejection by the World Bank to allow the setting up of a steel mill in Pakistan in 1964 although the government had approved this project in 1961 bears this out. The failure of G. Faruque's effort together with the consortium of Pakistani industrialists to convince the western powers to give them a steel mill from 1964 onwards only confirms this point. (It was only through the Soviet Union and China and in the public sector that the country finally got a steel mill and heavy industrial complex.)

The third and perhaps most cogent argument against the private sector is the fact that there has been a large illegal transfer abroad of domestic capital. Nulty, in his study of savings in Pakistan upto 1970<sup>9</sup>, has argued that this illegal transfer of capital started on a large scale after 1965. In the last few years this trend has been further accelerated as many industrial houses have transferred large sums of money abroad and certain industrialists (like Valika and Fancy) have in fact left the country altogether.

The very fact that the capitalists had been transferring money abroad as early as after 1965 shows that their ties with their own country were not very strong. The large scale exodus of capital outside the country after 1969 which they attributed to the political and economic conditions prevailing in the country, was in fact only a continuation of an earlier trend. The truth of the matter is that given the very nature of the capitalist class, rather than make any effort to adjust to changed conditions they opted for the far easier alternative of forsaking the country.

The Left Opposition, therefore, argues that to rehabilitate the private sector on the terms which it is putting forward, and which for all intents and purposes is for a recreation of the conditions of the

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9. Nulty: Savings and Income Distribution in Pakistan, Unpublished Ph. D. thesis, University of Cambridge.

sixties, would be a fatal error. First of all the exact political conjuncture (especially the vital foreign aid component) which made that boom possible is surely not going to repeat itself. Even if it does the reaction of the private sector cannot be relied upon as many have already forsaken and some are in the process of leaving the country. Finally, even if it does lead to a few years of high growth rates in industry, we would be again at the mercy of foreign capital. But now this dependence would be even greater than the sixties because of the weakening of the capitalist class.

To accommodate the private sector would not only mortgage the economy into a highly dependent growth strategy but would also nullify the steps that have been taken towards the creation of a public sector. This is because at this moment the state controlled industry is still a very small portion of the total industrial sector—less than 10 per cent of total value added and 25 per cent of fixed assets. The private sector, therefore, still dominates the economy and a few industrial houses still control its 'commanding heights'. In such circumstances if the private sector is once again returned to the position of dominance it would completely submerge and make the public sector absolutely subservient to the needs of the private sector.

#### **Case Against Foreign Capital**

There is ample empirical evidence to show that if we consider any period of time the inflow of capital from advanced capitalist countries to underdeveloped countries is less than the outflow of capital in the form of profit repatriations, royalties, fees etc.<sup>10</sup> Thus foreign investment in net terms results in an outflow of resources from underdeveloped countries rather than an inflow. In the case of Pakistan for example between 1959 and 1970, the inflow of capital in the form of profit repatriation, royalties etc., was 4.5 times the inflow of private foreign capital.<sup>11</sup>

Moreover, as Griffin<sup>12</sup> has pointed out it is a mistake to think that for every million dollars of foreign investment there is an equal transfer of savings of a million dollars from the advanced capitalist

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10. T. Szentes : *Political Economy of Underdevelopment* Akademiai Kiado. Budapest 1971.
  11. A. Syed, *Foreign Investment in Pakistan*, Unpublished M. A. Thesis, Department of Administrative Science, Punjab University.
  12. K. Griffin : *Financing Development in Latin America*, Allen and Unwin 1972.

countries to the underdeveloped countries. In general only half of the investment in Latin America by the United States foreign companies for example is financed by funds from the USA. A quarter is provided by a profit plough back and the other quarter are financed from funds raised locally.

Thus as Griffin points out US foreign investments in Latin America are financed by Latin American savings.<sup>13</sup>

Apart from the question of capital flows, a more fundamental issue is the effect of foreign capital on the social and industrial structure of an under developed country. The Right Opposition in Pakistan would say that foreign capital may have made Pakistan structurally dependent, in the past, but this will not happen now. Because, previously foreign capital went into assembly plants for consumer goods, now it will go into capital goods. But the crucial question to ask at this stage is will such investment bring greater economic independence, or will it merely change the FORM of dependence.

The latter conclusion may well be true if investment is seen in the perspective of recent developments in the metropolitan countries as well as in Pakistan. In the advanced capitalist countries increasingly strong trade unions and the opposition to pollution creating industries, has made it necessary to set up in the third world countries industries which are labour intensive or those that pollute the atmosphere. At the same time in countries like Pakistan growing popular resentment against an assembly plant type of industrialisation, has made it necessary to set up some basic industries. These two developments are converging towards the possible setting up by foreign capital of some labour intensive intermediate goods industries in Pakistan and other underdeveloped countries. This signifies a shift of emphasis by foreign capital from the exploitation of capital and natural resources to the more systematic exploitation of the labour resources of under developed countries. Thus what the Right Opposition regards as greater independence through foreign capital, may well turn out to be a change in the form of dependence.

### Left Opposition

The Left Opposition holds that Pakistan's new development strategy must spell a qualitative break from the past. In the sense that development must be based on self-reliance rather than foreign

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13. K. Griffin, op. cit.

capital. If economic growth is to be financed locally then a surplus must be extracted from agriculture, large enough to finance the investment targets. Such a surplus is not forthcoming given the present institution of resource mobilization in agriculture. This is seen clearly from the present grain procurement crisis. Even though terms of trade have been changed in favour of the agriculturists and production is quite high, the necessary surplus is still not forthcoming. Thus the Left Opposition argues that if investment targets are to be financed from domestic mobilization of resources, then there must be a thorough going land reform and the levying of a tax on agricultural incomes.

The position of the Left Opposition on the issue of industry is clearly that the industrial bourgeoisie is defunct and incapable of participating in an industrialization program. More importantly, if the private sector is given a permanent niche, instead of being complementary to the public sector, it will inhibit their growth.

### **Criticism of the Left Opposition**

However, even the policies of agricultural income tax and emphasis on the public sector in industry that the left Opposition suggest are inadequate. If the new strategy for economic development is to be relevant, then it must contribute toward the transformation of our human condition. Within such a frame of reference, we find the policies of the Left Opposition misdirected. For example, an agricultural income tax implies a perpetuation of the existing social organization of production in the rural sector. What is necessary is not purely to extract a surplus out of agriculture, but to simultaneously change the relationship between the peasants and their activity. Therefore, cooperative farming must be instituted initially and then a development towards collective farming in which the producers collectively own not only the implements, but also the land and the output.

Similarly, the Left Opposition's strategy of replacing the present consumer good-led industrialization by one with major emphasis on heavy industry will in itself not put the country on the road to sustained growth as the Indian experience has clearly shown. What it would require is a basic transformation in the existing property relation so that income inequalities with their present demand generating pattern can give way to an egalitarian society in which demand can be managed by the state so as to maintain the balance between

both agriculture and industry and within industry between heavy and consumer goods. In concrete terms this would mean in the urban centres a drastic reduction in property ownership and in the industrial sector the take over of the cotton textiles and sugar industry.

In Industry, new forms of social organization of production must be developed. If a total nationalization takes place, and the existing hierarchical structure of organization in the public sector preserved, then such a socialism would be merely 'capitalism without capitalists'. The manager with his Rs. 10,000 plus salary is culturally and socially divorced from the workers. The organization is hierarchical, decisions flow from the top downwards, and each member is a "component" committed only to himself. Such an organizational structure would engender the consciousness of capitalism, even if the industries are nationalized. Therefore, what is needed is to develop new more democratic forms of industrial organization, in which the IMMEDIATE producers have control over productions and distribution of revenue (within limits implied by the central plan)—forms of organization in which the industrial worker can experience a creative relationship with his activity and the product of his labour.

### Conclusion

The experience of Pakistan, like that of other ex-colonial capitalist countries was that because of its failure to create a 'national' capitalist class in the country even the growth and development which would accompany any capitalist growth strategy could not be achieved. Burdened with a 'comprador' capitalist class with short run stakes in the country, "development" ended up by producing more poverty, disease and ignorance rather than lessening it.

A capitalist class which believes that capitalism stands for profits for the capitalist and losses to be borne by the general public (as the present textile crisis once again so clearly shows)<sup>14</sup> can hardly be the engine of economic growth and development in the country. Rejected by the people as seen by the mass movement of 1968—69 and the general election of 1970 they can now only have a very limited role to play in the country's economy.

4. Pakistan Times, The Sun, etc.

The case of the Left Opposition for further socialisation of the economy, is therefore, a very strong one. But an agricultural tax or a bias towards heavy industries by itself will not solve the problem. What is necessary now is to conceive the development strategy within the perspective of the need to transform the totality of our social existence. The need to create collective forms of production and social organisation—the need to reconstruct a society in which a vitally new human consciousness can be realized. A society where one's reflexes for competition and acquisition can give way to the impulse for solidarity and connection.



# DIFFERENCES IN FERTILITY DETERMINANTS: DEVELOPED AND DEVELOPING COUNTRIES

*Paul Gregory, John Campbell and Benjamin Cheng\**

## 1. Scope and Purpose

In recent years, an awareness has grown that both developed and developing countries are subject to population pressures and would therefore benefit from reductions in the rate of growth of population. Such pressures are different in the two groups of countries. The underdeveloped countries must limit population growth to facilitate expansion of output *per capita*, whereas the developed countries must cope with the environmental and social problems created by the combination of population growth with high *per capita* income. Thus, the question of population growth is a vital one irrespective of the level of development. It is, therefore, important to understand the determinants of natural population growth, of birth rates in particular, to establish whether they differ at lower and higher stages of economic development.

Historical evidence provides some support to the contention that the impact of changes in economic development on birth rates is nonlinear and reversable. Kuznets<sup>1</sup> (1966, 48—49) notes that during the early stages of modern economic growth in Europe, birth rates rose initially as *per capita* income increased and cultural barriers broke down, but a secular downward trend in birth rates followed which dominated over the long run. This same conclusion is reflected to some degree by Simon (1969, pp. 327—341) who contends on the basis of a survey of available empirical evidence that the birth rate

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drops in less developed countries as average income increases with the possible exception of the early stages of development as long-existing traditional institutions change.

On the other hand, Adelman (1963, pp. 315—339) computes two separate cross section regression equations—one for developed, the other for underdeveloped countries—and fails to find significant coefficient differences between the two groups. Thus she concludes that there is homogeneity of population response in both groups of countries.

We propose to reopen the issue of the homogeneity of population responses in developed and developing countries for three reasons. First, we suggest that Adelman's model was not properly specified, omitting cost variables and ignoring the simultaneity problem. Second, Kuznets' secular data seem to contradict her conclusion. Third, common sense seems to argue against homogeneity in view of the vast socioeconomic and cultural differences between the average peasant in a developing country and the average industrial worker in advanced countries.

In this paper, we deal with birth rate determination in developed and underdeveloped countries separately to determine if the explanatory factors differ between groups. We postulate a conceptual model of fertility, which includes the explanatory factors suggested by past studies as being significant plus two additional factors. Then we fit this model to separate developed country and developing country cross section samples to evaluate and test coefficient differences between the two groups.

## 2. The Fertility Model

Following past studies (*Adelman, 1963, pp. 315—339; Simon, 1969, pp. 327—341; Weintraub, 1962, pp. 327—341*), our model postulates that the birth rate of a country (the number of live births per 1,000 population, which we denote by  $x_0$ ) is a function of the following explanatory variables: *per capita* income ( $x_1$ ), infant mortality weighted by the rural ratio ( $x_2$ ),<sup>2</sup> the overall illiteracy rate ( $x_3$ ), religion, in the form of a Catholic dummy variable ( $x_4$ ), and the female labor participation rate ( $x_5$ ). All data refer to the year 1965. For the definitions and sources of these variables, see Appendix 1.

*Per capita* income has been included because it is assumed that as the income constraint is relaxed, fertility decisions might change.

Infant mortality weighted by the rural ratio has been included because in the agricultural sector a child is an investment factor of production. The illiteracy rate, which serves as a proxy for education enters the model under the assumption that education alters both the desire and capacity to have children. The Catholic dummy is included because of the doctrinal limitations placed upon the use of artificial contraception devices by the Catholic Church. The female participation rate is used as a measure of the opportunity cost of childbearing insofar as the new mother must withdraw from the labour force and is prevented from reentering the labour force by the greater responsibility of child care. Thus, women who are in the labour force deliberately restrict the size of their families. As Mincer (1963, pp. 67—82) has argued, the appropriate costs of fertility include not only direct expenditures but also the imputed price of the time required for childbearing and rearing activities.

Thus the postulated model is :

$$(1) X_0 = F(X_1, X_2, X_3, X_4, X_5)$$

Where :  $X_0$  is the mean birth rate ;  $X_1$  is *per capita* income ;  $X_2$  is infant mortality weighted by the rural ratio ;  $X_3$  is the illiteracy rate ;  $X_4$  is the Catholic dummy ;  $X_5$  is the female participation rate.

A single equation model such as (1) is inadequate because the birth rate ( $X_0$ ) affects *per capita* income and vice versa (Okun, 1965, pp. 235—240). As the mean birth rate increases with a constant death rate and zero net migration, an increase in population of the non-productive age groups will result. Thus downward pressure will be exerted on *per capita* income. Therefore, a second equation (2) must be added to our conceptual model to 'explain' *per capita* income so as to account for the possible interaction between *per capita* income and the birth rate :

$$(2) X_1 = G(X_0, X_6, X_7)$$

Where :  $X_6$  is *per capita* energy consumption

$X_7$  is population density

The variable  $X_6$  represents physical capital and  $X_7$  is a proxy for natural resources *per capita*. Female labour participation is included because it is assumed that a high female participation rate would lead *ceteris paribus* to a higher level of *per capita* income. For the definitions and sources of these variables, consult Appendix I.

On the basis of this general model, we postulate separate models for developed and developing countries. We suggest that the variables which significantly affect mean birth rates in developed and developing countries differ for the following reasons. Whereas factors such as infant mortality, female labour participation, and *per capita* income do possibly enter into the fertility decision in developing countries, the result will not equal the intent unless the individual has received sufficient education to implement his decision. In developing countries, where the level of education is low, education will dominate the other four factors in the model, because they depend upon the achievement of a minimal level of education before they are activated. Thus, we expect education to be the dominant factor in the model in the determination of birth rates in developing countries.<sup>3</sup> On the other hand, other factors in the general model enter into fertility decisions in developed countries since the average level of education is generally sufficient to enable the normal individual to choose what he considers to be an optimal family size according to the other factors, such as opportunity cost and family income, in the fertility equation.

### 3. The Empirical Results

We test our conceptual model by choosing a linear form for equations 1 and 2. Insofar as we are working with a system of two linear equations, it is necessary to use simultaneous equation estimation techniques. Our statistical methodology is outlined in a series of footnotes below for those not familiar with the simultaneous equation regression approach. The two equation system is fitted to two cross section country samples from the year 1965. The first cross section is a sample of 25 developed countries (defined as having *per capita* incomes greater than or equal to \$ 500 in 1960 U.S. dollars); the second consists of 15 developing countries (with *per capita* incomes of less than \$ 500). In all cases, we used official United Nations statistics and accepted the United Nations statistical definitions of the various explanatory variables. The reader should consult Appendix 1 for data sources and definitions.

First, we estimate the regression coefficients of (1) and (2) using three-stage least squares (*Zellner and Theil, 1962*). The significance of each third-stage regression coefficient in the fertility equation is then tested by computing the appropriate statistic.<sup>4</sup>

The computed coefficient significance tests (note 4) indicate that for the developed countries both the illiteracy rate and the female labour participation rate are significant (at the .05 level) in the fertility equation while the other coefficients do not differ significantly from zero. On the other hand, only the illiteracy rate coefficient of all the tested coefficients is significant in the fertility equation of the developing countries. This latter result tends to confirm our earlier arguments. It is somewhat surprising that the other variables in the fertility equation of the developed countries—especially infant mortality—prove to be insignificant.

Second, we derive the reduced form<sup>5</sup> of the model from the estimated regression equations (note 4) to evaluate the magnitude (rather than the significance) of the impact of the postulated variables upon birth rates. The reduced form (described in note 5) adds information about both the direct *and* indirect effects of the exogenous variables on the birth rate variable. Indirect effects on birth rates are created as a result of the simultaneity of the system, because a variable can exert an indirect impact through its influence on *per capita* income in the second equation. For example, a change in female participation rates not only influences birth rates directly as an opportunity cost but also indirectly via its impact on *per capita* income.

It is difficult to interpret the reduced form coefficients (the so-called impact multipliers<sup>6</sup>) directly because their magnitude is dependent upon the unit of measure employed. Therefore, we compute the elasticity-multipliers<sup>7</sup> of the six exogenous variables which are independent of the unit of measure. These elasticity multipliers are recorded in Table 1. They are defined as the ratios of the percentage change of the endogenous variable ( $X_0, X_1$ ) to the percentage change in the exogenous variable, ( $X_2, X_3, X_4, X_5, X_6, X_7$ ) when both direct and indirect impacts are measured. Thus, the  $X_0, X_3$  elasticity multiplier of .22 (Panel 1, Table 1) indicates that a one per cent decline in the illiteracy rate ( $X_3$ ) generates a .22 per cent decline in the birth rate ( $X_0$ ) in developed countries when both direct and indirect impacts are considered. Let us now analyze the differences between the elasticity-multipliers of the developed and developing countries.

Of the six exogenous variables in Table 1, illiteracy ( $X_3$ ) and the female labor participation rate ( $X_5$ ) have the largest (direct and indirect) impacts on birth rates in the developed countries. By contrast, only illiteracy ( $X_3$ ) has an appreciable impact on birth rates

in the developing countries. For example, a decline in the illiteracy rate of one per cent generates a change of  $-.22$  per cent in  $X_0$ , and a one per cent increase in the female labour participation rate ( $X_5$ ) occasions a change of  $-.14$  per cent in  $X_0$  in developed countries. On the other hand, a percentage decline in illiteracy is followed by a change of  $-.19$  per cent in  $X_0$  and a one per cent decline in the female labour participation rate has only a negligible impact on  $X_0$  in developing countries. *The elasticity multipliers of the other exogenous variables are negligible.*

TABLE 1  
THE ELASTICITY—MULTIPLIERS OF ENDOGENOUS  
VARIABLES WITH RESPECT TO EXOGENOUS VARIABLES

Endogenous Variables	Exogenous Variables					
	$X_2$ Infant mortality <i>x</i> rural ratio	$X_3$ Illiteracy rate	$X_4$ Catholic dummy	$X_5$ Female participa- tion rate	$X_6$ Per capita energy consump- tion	$X_7$ Population density
1. Developed Countries						
$X_0$ Birth rate	-0.055	0.220	-0.009	-0.140	-0.006	-0.005
$X_1$ Per capita income	0.031	-0.128	0.005	-0.069	0.089	-0.051
2. Developing Countries						
$X_0$ Birth rate	0.030	0.190	-0.001	0.023	-0.015	-0.019
$X_1$ per capita income	-0.370	-0.450	-0.003	0.120	0.091	-0.114
3. Developed and Developing Countries						
$X_0$ Birth rate	-0.187	0.220	0.005	-0.153	-0.0035	-0.003
$X_1$ Per capita income	-0.286	-0.343	-0.005	-0.036	-0.077	0.082

Third, we estimate the impact of *per capita* income (which is endogenous to the model) on birth rates by computing  $\partial X_0 / \partial \beta_0$  (where  $\beta_0$  is the income intercept in the reduced form intercept in

the fertility equation) which measures the direct and indirect impact on fertility of a percentage change in the intercept of the income function. The income intercept elasticity is  $-0.089$  and  $-0.022$  for developed and developing countries, respectively.

#### 4. Conclusions

Several conclusions can be derived from these empirical results. First, they indicate that population planning at the aggregate level must proceed differently in developed and developing countries. Insofar as education is a significant determinant of national birth rates in developing countries, investment should possibly be allocated to social infrastructural uses which raise the level of education and thereby reduce fertility rather than to physical capital accumulation. As Table 1 indicates, an increase in *per capita* energy consumption (the proxy for physical capital *per capita*) of one per cent tends to increase *per capita* income by .09 per cent in the developing countries; whereas a one per cent reduction in the illiteracy rate tends to reduce the birth rate by .19 per cent. Given the fact that capital is scarce, should it be allocated to physical or human capital investment? At a minimum, we argue that serious cost-benefit studies be made by developing countries concerning the distribution of investment between human and physical capital development. Second, the empirical results indicate that national birth rates can be reduced in developed countries by a combination of infrastructural investment in human beings (where a one per cent reduction in the illiteracy rate generates a .22 per cent reduction in the birth rate) and by encouraging greater female participation in the labour force (where a one per cent increase in the female participation rate generates a .14 per cent reduction in the birth rate). This latter result, however, ignores the possibility of reverse causation of fertility on female participation which has not been investigated in this study. Third, the combined sample indicates that a reduction in the rate of infant mortality weighted by the rural ratio of one per cent will cause a .19 per cent reduction in the birth rate (Table 1, Panel 3). Thus, one would expect, *ceteris paribus*, a gradual reduction of the birth rate as infant mortality is reduced. The subsamples, however, fail to substantiate this expectation. Fourth, the impact of increases in *per capita* income on fertility seems to be small in both developed and developing countries (as measured by autonomous upward shifts in *per capita* income).

That we have concentrated on social and economic variables in this study does not imply that we have developed a perfectly specified model which 'explains' the fertility decision at the family level. When dealing with aggregate data, significant demographic variables which explain inter-family and inter-regional variation such as age and the proportion of females married tend to be obscured. Secondly, our policy orientation led us to concentrate on non-demographic factors such as education which are better subject to control at the national level.

### 5. Areas for Further Research and Extensions

The two equation model presented in this study is admittedly a simple one. We suggest at this point that it could be extended in several ways in future research. A major problem in this study has been the selection of exogenous and endogenous variables. The two endogenous variables in this study are the birth rate and *per capita* income; all the other variables are assumed exogenous. The selection of endogenous and exogenous variables is always difficult and somewhat arbitrary, but we think that the model could be improved by the addition of further endogenous variables to the model. In particular, female participation seems a likely candidate to enter endogenously. Yet the development of further endogenous variables requires the addition of further equations, thus increasing the complexity of the model. Second, further research should go into better specifying the *per capita* income equation using contemporary production function analysis. In addition, it would be of interest to experiment with permanent income as opposed to the measured income concept used in the current study. Finally, it would prove interesting to develop an overall statistical test of the homogeneity of the two samples in a simultaneous equation system. Currently, the available tests of homogeneity of coefficient sets (in particular, the Chow test) are not applicable to a simultaneous system because they must assume all variables are exogenous.

### APPENDIX 1

Definitions of Variables and Sources of Data. All data are for the year 1965.

1. Fertility rate ( $X_0$ ) is the number of live births per 1,000 population. Source: *Demographic Yearbook 1966*, United Nations.



2. *Per capita* income ( $X_1$ ): *per capita* income in 1960 constant U.S. dollars. Source : *Statistical Yearbook*, 1966, United Nations.
3. Infant mortality ( $X_2$ ): the number of deaths of infants under 1 year of age per 1,000 live births. Source : *Demographic Yearbook*, 1966, United Nations.
4. Illiteracy rate ( $X_3$ ): the percentage of illiteracy in the population, 15 years of age or over. Source of data : *Statistical Yearbook*, 1965, UNESCO, N.Y.
5. Catholic dummy variable ( $X_4$ ): nation with 50 per cent or over of population adhering to the Catholic religion. Source of data : *Demographic Yearbook*, (various years), United Nations.
6. *Female labour participation rate* ( $X_5$ )

The economically active population is defined as all persons of either sex who furnish the supply of labour available for the production of economic goods and services. In brief, it comprises all persons engaged in, or actively seeking, productive work in some branch of the economy during a specified period of time. This concept of the economically active population is also known as the labour force concept and it theoretically includes the following groups of workers.

1. Civilian employers, employees, own-account workers and unpaid family workers.
2. Armed forces.
3. Employed and unemployed persons, including those seeking work for the first time.
4. Persons engaged in part-time economic activities.
5. Domestic servants.

The economically inactive population, on the other hand, comprises persons with no economic activity at the moment of the census. This group normally includes housewives and students not economically active, retired persons, inmates of institutions, children below the working age, and persons past the working age.

Persons whose activity was not stated are excluded from the economically active group; persons in poorly-defined activity on the other hand are included. Accordingly, the female labour participation rate is defined as the percentage of the female population that is economically active. Source : *Demographic Yearbook*, 1967, United Nations.

7. *Per capita* energy consumption ( $X_6$ ): quantities in million metric tons of coal equivalent and in kilogrammes *per capita*. Source: *Statistical Yearbook*, 1966, United Nations.
8. Population density ( $X_7$ ): population per square kilometre of area. Source: *Statistical Yearbook*, 1966, United Nations.

### Notes

1. Kuznets writes: 'This finding bears upon underdeveloped countries today, for they have retained a number of institutional practices . . . that keep the birth rates below their high potential level. Abandonment of such practices under the pressure of modernization . . . may produce a significant rise in the birth rate, (*Kuznets, 1966, p. 48*).

$$2. X_2 = aX_2^*$$

where:  $X_2^*$  = infant mortality rate

$a$  = rural ratio of population

To derive this result, we assume the following urban and rural fertility equations:

$$\text{Rural: (a) } X_0' = b_1'X_1' + b_2'X_2'^* + b_3'X_3' + b_4'X_4' + b_5'X_5'$$

$$\text{Urban: (b) } X_0^0 = b_1^0X_1^0 + b_3^0X_3^0 + b_4^0X_4^0 + b_5^0X_5^0$$

where the  $'$  refers to rural variables (example:  $X_0'$  refers to the rural birth rate) and the  $^0$  refers to urban variables (example:  $X_1^0$  refers to urban *per capita* income). The difference between the urban and rural equations is the assumption that infant mortality positively affects the rural birth rate (where the child is a factor of production) *but does not affect the urban birth rate*. The combined fertility function is:

$$\text{total: (c) } X_0 = aX_0' + (1-a)X_0^0$$

which reduces to:

$$(d) X_0 = b_1X_1 + ab_2X_2^* + b_3X_3 + b_4X_4 + b_5X_5$$

if we assume:  $b_1' = b_1^0 = b_1$ ;  $b_3' = b_3^0 = b_3$ ;  $b_4' = b_4^0 = b_4$ ;  $b_5' = b_5^0 = b_5$

Entering  $X_2$  as a weighted variable has two advantages. First, this improves the model's specification. Second, it reduces the multicollinearity problem by combining two collinear variables (infant mortality and the rural ratio).

3. We experimented with the inclusion of an age-structure variable and a marriage rate variable in our model because these two variables obviously are important demographic determinants of

fertility. We defined the age-structure variable as the proportion of the female population with the 15 to 40 age groups. Surprisingly the coefficients of both of these variables did not differ significantly from zero (at the 10 per cent level of significance). Our explanation of this unusual conclusion is that significant intracountry differences (by region, household, etc.) are lost in aggregate inter-country comparisons. Our sample indicated surprisingly little variation of the age-structure variable within our two samples. Because of the zero age-structure coefficient, we chose not to age-standardize national birth rates; instead, we work throughout with crude birth rates per 1,000 population.

4. The third states of regression results for developed countries (equations 3 and 4) and developing countries (equations 5 and 6) are given below :

$$(3) X_0 = 18.840 + 0.001X_1 - 0.112X_2 + 0.622X_3 - 0.638X_4 - 0.098X_5 R_2^* = 0.82$$

(7.263) (0.003) (0.239) (0.099) (2.417) (0.037)

$$(4) X_1 = 2574.000 - 41.740X_0 - 8.027X_5 + 1.060X_6 - 0.748X_7 R_2^* = 0.50$$

(736.800) (17.720) (13.430) (0.304) (0.953)

$$(5) X_0 = 20.420 + 0.022X_1 + 0.123X_2 + 0.255X_4 + 0.247X_5 - 0.112X_5 R_2^* = 0.36$$

(20.110) (0.043) (0.199) (0.160) (6.233) (0.228)

$$(6) X_1 = 849.400 - 17.000X_0 - 4.070X_5 + 5.688X_6 - 0.552X_7 R_2^* = 0.48$$

(375.600) (8.556) (3.495) (3.216) (0.325)

\*No coefficient of multiple determination ( $R^2$ ) can be computed in the third stage. Therefore the second stage  $R^2$  values are given.

5. The reduced form (which measures both the direct and indirect effects of the exogenous variables upon the respective endogenous variables) is computed from the original regression equations (the 'structural form') as follows (from 3 and 4):

$$(3') X_0 - .001X_1 = 18.840 - 0.112X_2 + 0.622X_3 - 0.638X_4 - 0.098X_5$$

$$(4') 41.740X_0 + X_1 = 2574.000 - 8.027X_5 + 1.060X_6 - 0.748X_7$$

Equation (4) is then substituted for  $X_1$  in (3') and Equation (3) is substituted for  $X_0$  in (4'). This operation yields the 'reduced form'.

The reduced forms are given in note 6. The reduced form coefficients are called 'impact multipliers'. See Goldberger, pp. 288-306.

6. The impact multipliers for developed countries (equations 7 and 8), for developing countries (equations 9 and 10) are given below. The impact multipliers measure the direct and indirect impact of a one unit change in an explanatory variable upon the dependent variable.

$$(7) X_0 = 20.773 - 0.107X_2 + 0.592X_3 - 0.608X_4 - 0.094X_5 - 0.001X_6 - 0.001X_7$$

$$(8) X_1 = 1660.400 + 4.452X_2 - 24.708X_3 + 25.379X_4 - 3.472X_5 + 1.020X_6 - 0.713X_7$$

$$(9) X_0 = 61.019 + 0.035X_2 + 0.177X_3 - 0.171X_4 + 0.014X_5 - 0.088X_6 - 0.009X_7$$

$$(10) X_1 = 343.184 - 3.065X_2 - 3.071X_3 - 2.973X_4 + 4.167X_5 + 3.942X_6 - 0.382X_7$$

7. The elasticity multipliers are derived by multiplying the coefficients of the reduced form by the ratio of average values of the two variables involved. For instance, the  $-0.005$  elasticity-multiplier for developed countries in Table 1 is computed by multiplying the reduced form coefficient  $-0.107$  (equation 7, Note 6) by  $X_2^-/X_0^-$  where the bars ( $-$ ) refer to average values, or  $-0.005 = \delta X_0 / \delta X_2$ .  $X_2^-/X_0^- = -0.107$ .  $X_2^-/X_0^-$ . See Goldberger, p. 214.

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## 'RECENT INFLATION IN PAKISTAN'

*Salman Ahmed\**

For the healthy and smooth working of an economic system, it is necessary that price movements should be kept within reasonable limits. This is so because abrupt changes in prices create far-reaching distortions in the economic system and result in redistribution of real income among the people involving injustices to some classes and extra gains to others. This is so because money is a measure of value as well as a medium of exchange. Rising prices may mean fall in the value of money and hence reduction in the resources in possession of those whose incomes do not rise in the same proportions as the rising prices. Similarly a fall in prices increases the command over resources of those whose incomes do not fall in the same proportions as the fall in prices. Thus rising prices are unfavourable for people with fixed incomes and falling prices are a source of gain to them. To the business community rising prices are of great advantage, because they enable them to command more money at the time of selling their goods and services as compared with the money they spend as cost of production of those goods and services. This causes class conflict, resentment and bitterness in the society.

Apart from these distributive effects, too frequent and too abrupt changes in price levels upsets all calculations of those who are engaged in productive enterprises, thus creating a general sense of instability and insecurity in the economic system, which is most deleterious to economic progress.

Further incentives to work are reduced which decreases production. Labour incomes do not rise in proportion to rise in the cost of living. There is a general sense of unfairness and frustration among the working classes. These lead to stoppage of work and strikes. If strikes are frequent and occur in strategic industries, production is seriously affected which worsens the inflationary situation.

Then continued price rises lead to hoarding of goods by wholesalers, retailers and consumers to make higher profits and to ensure

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further supplies. This creates artificial scarcities and lead to further price rises.

Since the relationship between costs and prices in the future gets uncertain, enterprise is discouraged. This further affects production adversely.

Some of the goods and services that rise most in war time are luxuries. If successful price controls and rationing keeps the prices of necessities low, prices of luxuries will rise all the more since the excess purchasing power will be diverted towards them. This results in the movements of resources from more essential to less essential uses, which means comparative waste.

If prices rise considerably, the purchasing power of the currency unit falls rapidly. This is what is called "flight from the currency". People tend to spend as soon as they got hold of any money. In other words, velocity of circulation of money increases or in Keneysian language, liquidity preference decreases. This makes for the inflationary spiral, runaway or galloping inflation. Huge investments are made in land, buildings and other desirable goods. Speculation appears in the real estate market and resources are thus further misdirected.

The internal deterioration in the value of a currency reflects itself in its external value. It falls in terms of other currencies. If there in exchange control, the pressure on the currency increases. A black market appears in foreign exchange. Capital begins to fly out inspite of all controls. This makes foreign trade a gamble and further adverse repercussions on the balance of payments of the country, its structure of production and trade.

### Causes of Inflation in Pakistan

The basic cause of inflation is that total expenditure is in excess of income at current prices. The result is that in order to attain equilibrium, prices get pushed upwards. Rising prices lead to rising costs, particularly due to demand for higher wages.

The excess of expenditure over income at current prices may be due to various causes. The following are the most usual.

(1) Excess of private expenditure over real saving, financed by loans from the banks: such expenditure is encouraged when prospects of profits are considered high by the investing class.

(2) Excess of government expenditure over its revenues, including revenues from taxation and borrowings out of savings of the people. Such expenditure may be financed by

(a) Direct printing of currency.

(b) Borrowings from banks, particularly the central bank of the country, in return for government bonds or other papers. This is money creation by banks and may necessitate the issue of currency notes in varying degrees according to the way transactions are carried out by the people. Such government expenditure is usually incurred to finance war after the limit of taxation and borrowing from the public is reached.

In developing countries like Pakistan, excess government expenditure (i.e., deficit financing) is incurred to finance the development of the country. Since the basic projects of development (irrigation, land reclamation, flood control, transport, power projects, public buildings for hospitals, schools and colleges, etc.) do not increase the production of consumer goods immediately, the extra purchasing power thus spent bids up the prices of existing consumers' goods higher and higher.

In Pakistan, due to the predominantly agricultural structure of her economy, factors affecting the production and sale of the major agricultural products (such as cotton, wheat, rice, etc.) have a close bearing on the general price level. These factors include climatic conditions, rainfall, supply of water in rivers and canals, the occurrence of floods or droughts, losses of crops from pests such as locusts, swarms, rice borers and the like. The price of agricultural products have a powerful impact on all other prices, for these are also incomes for the 'surplus' growers (I mean growers of raw materials) who form an overwhelming majority (85%) of the total populace in the country.

Again the country's price level is sensitive to changes in international conditions of demand for its two major export crops—cotton and rice. A period of high and rising export prices will generally result in larger money incomes not only for the middlemen and market intermediaries (such as Aratdars, beoparis, dalala, etc.) through whose hands the crops pass and who exert an upward pressure on the price level. Foreign influences working through import prices also

play a significant part in influencing country's price level because of its substantial dependence on foreign supplies of consumer goods.

Further, movements in the country's balance of payments, change in government's fiscal, tariff and trade policies and the monetary and credit policies of the banking system also influence price levels to a great extent.

The view of an economist in the administration Dr. Moin Baqai is: In Pakistan inflation came about originally because the nation wanted to have a large defence effort and a large development effort on a resource base which has declined. The country is spending roughly Rs. 450 crore per annum on defence and Rs. 550 crore on development in the public sector. The income base being given, this would have accounted for 20% of the GNP if the prices had not risen. Such an effort was difficult for the nation but completely unavoidable in the aftermath of December, 1971. It was a question of survival, national integrity and a meaningful economic recovery.

International factors have also contributed to recent inflation in Pakistan. Inflation in Pakistan has stemmed largely from the world-wide price hike. Prices everywhere are going up in response to shortages and higher costs. As the market in Pakistan is not completely insulated from international factors of price, demand and supply prices at home react rather generously to prices abroad, either through the mechanism of formal export and import or the unrecorded trade which is called smuggling.

Devaluation of Pakistan rupee in 1972 is another cause of recent increase in price trends. It has increased not only the prices of imported goods but increased the price of imported raw material thereby increasing the cost of development and prices of home produced goods also. Further, increases in money income without a corresponding rise in the availabilities including goods imported are having a bearing on supplies through imports, has resulted in inflation.

#### **Traditional Policies and their Effectiveness**

##### **To Eliminate Inflation in Pakistan.**

##### ***Direct Controls :***

Every Government in Pakistan from time to time has been using direct controls to prices of certain types of goods like food-grain, cloth,



medical supply, etc. Rationing is a sort of direct controls. "The budget in Brief" 1974-75 states :

In order to allow orderly price adjustment in response to higher world commodity prices and to protect the low income groups, a wage price package was announced in Aug, 1973 under which the sale price of wheat and sugar was raised. However, even the new price at which wheat was supplied through ration shops located in urban areas was supplied below the import price and had to be heavily subsidised. The price of petroleum products were revised twice in line with the increases announced by petroleum producing countries but that of fertilisers remained unchanged until the 3rd week of April, 1974.

The private investment expenditure may be controlled to bring it down to level of savings through control of capital issues and so on. The effect of direct control is limited. Price control may lead to wrong distribution of the commodity concerned. When price is fixed below the equilibrium level, demand exceeds supply. There is rush of buyers to the shops and in the scramble those who come first get more than their share and others are left with nothing. However, it encourages black marketing which again mean commodities going to those who can pay black market prices. Price control, therefore, is accompanied by rationing of necessities of life. This involves considerable administrative costs and difficulties. It pre-supposes, moreover adequate civic sense among the people, efficiency and integrity of the administration and possibility of controlling the supplies of the commodities concerned and these conditions are rarely present.

### **Monetary Policy :**

Since a major cause of inflation is the rapid increase in money supply, the State Bank of Pakistan has been charged with the responsibility of taking all possible steps for ensuring stability in the economic sphere so far as this can be done by monetary action. This brings us to the objectives and mechanism of monetary policy of the Bank.

The major objective is to achieve monetary stability, without retarding economic development. The State Bank like other central banks is eminently suited for this task on account of its position as the banker of the state, the banker's bank and the sole note-issuing authority. It thus possesses powers to regulate the flow of both

currency and credit. Through its various methods of monetary control, it can expand or contract money supply in accordance with the needs of the economy.

For the successful implementation of monetary policy, the central bank must operate in an economy in which the money market is well developed and the rates of interest sensitive to the central bank's policies. With the nationalisation of commercial banks and insurance companies, there are no serious limitations on the operation of monetary policy in Pakistan. But the various objectives may fail to be achieved due to the following difficulties.

1. Money supply does not consist only of bank credit. Purchasing power may exist in the form of book credit, bills of exchange, and promissory notes not discounted by the banks over which the central bank may have no control.

2. Even as regards bank credit, all banks in the country may not have direct relations with the central bank. e.g.; non scheduled banks in Pakistan and insurance companies.

3. There may be non banking elements in the financial structure of the country. e.g.; circumstances affect expectations of business community and investment climate.

4. Finally, the central bank cannot control the ultimate use of credit, e.g.: credit may be used for speculative purposes. To quote the publication again, "The budget in brief 1974-75" The measures taken by central bank are as follows.

"In the field of monetary policy, quantitative as well as qualitative methods of control were used. The bank rate was enhanced in August from 6% to 8% with consequential charges in other interest rates. At the same time, the liquidity ratio to be observed by commercial banks were increased from 30 to 35%. Moreover, flexible use was made of selective credit control measures which were at times made restrictive with a view to discourage hoarding and speculative use of credit."

#### **Fiscal Policy.**

Deficit financing in excess of the absorptive capacity is a factor contributing towards inflation. According to sharafat A. Hashmi in his article "inflationary pressure and the current budget" policy may

be directed towards a target rate of inflation of 3%, of money income. Some of the past budgets have made liberal use of deficit financing. The present budget for 1975-76 envisages to reduce deficit financing up to the vanishing point. From the view point of anti-inflationary policy, this is perhaps the most outstanding feature of the current budget.

Further, with the improvement in the terms of trade of agriculture compared to industry, agricultural income has increased manifold. For this agricultural income taxation is necessary for controlling inflation.

Further, the ratio of 89% of taxation as indirect is very high, for indirect taxes contribute more to inflation than direct taxation.

#### *Suggestions:*

I hereby give some suggestions taking in view the pessimism of Mr. Manzoor Mirza, secretary, essential articles board, Government of Punjab, According to him "we are unable to fix the prices but the economy"

1. Increases in wages and prices should not be allowed to exceed between 6 to 8% per annum.

2. Exports should be allowed only to the extent and after the surplus over domestic consumption is physically determined.

3. Consumer co-operatives and fair price shop all over the country in chains and super markets should be opened where middlemen are eliminated by at least one intermediary between producer and consumer.

4. Economies in oil, gas and electricity should be encouraged.

5. Black marketing, profiteering, hoarding and smuggling should be suppressed.

6. The most important suggestion is that the availabilities should be increased through a higher level of productivity per worker or yield per acre, as the case may be, and an over all increase in production to optimum standards through a fuller capacity utilisation by adding to raw materials and spare parts inventories, and inputs.

It is possible to double the present acreage under cultivation in Pakistan given the investment needed to pump out water from saline

land and cultivate presently unirrigated land by pumping ground water from below a depth of about 300 feet.

The whole of Baluchistan is there to be cultivated if investment is forthcoming. Ever if that should be deemed to be only a long term prospect, there is enough land to cultivate some 10 million more acres in the Indus plain itself by adding some 18 million acre feet of irrigation water by raising the height of the two major dams and constructing two more reservoirs on the Indus and creating reservoir capacity on the smaller rivers and some off-channel reservoir capacity where possible.

Since our economy is mainly agricultural, increases in out put of this sector will lead to a fall in the general price level.

## REVIEW ARTICLE

### PLANNING FOR UNDER-DEVELOPMENT

#### A tour d'horizon of Past Development

*Dr. M.A. Hussein Mullick\**

"Nothing but experience can make corrections and can open new ways. Nothing but the uncurbed effervescence of life hits upon a thousand new forms and improvisations, illuminates creative powers, corrects all mistakes on its own. The public life of states with restricted freedom is so scant, so miserable, so schematical, so barren precisely because by the exclusion of democracy it looks itself off from the living sources of all intellectual wealth and progress". Rose Luxemburg in "Politische Schriften", Vol. I-III, ed. Ossip K. Flechtheim (Frankfurt-Main), 1966/68, Vol. III, p. 135.

The book "Development Planning & Policy in Pakistan 1950-70"\*\*\* might have perhaps passed unnoticed, had the reviewer not been in a mood to enter into a dialogue with his fellow colleagues on the issue of development.

The articles published in the book have been contributed by three economists (Haq, Baqai & Islam) and one political scientist (Sayeed). The period covered by the authors is 1950-70 though they largely deal with the sixties.

The book begins with the article "Seven Sins of Economic Planners"\*\*\* contributed by Dr. Mahbub-ul-Haq. It is well written

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\*\*Edited by Drs.Moin Baqai & Irving Beecher, National Institute of Social & Economic Research, Karachi, June, 1973, Rs.20,—

\*\*\*The seven sins are:-

1. Placing too much reliance on numbers of statistical achievements.
2. Love for direct economic controls.
3. Expecting too much from high investment rates.
4. Falling victim to emerging development fashions: such as the growth of import substitution industry or agricultural development.
5. Planning too much on paper but neglecting fuller implementation of the Plans formulated.
6. Growth sans justice.
7. Neglect of human resources.

and could very well be accepted as a fine piece of literary work. But does it offer anything of significance, as far as the issue of development is concerned? It is difficult to give a straight "ay" or "no". Dr. Haq comes up with an open confession, not of one, but a whole package of seven sins. Although this seems a very bold step indeed, it is also misleading. As will be explained later on; the seven sins, even if they are expunged, do not make the planners any more virtuous. They remain sinners as long as they fail to understand the true development rationale, based not on superficial notions, but on hard and persistent inquiry into the whole realm of development, underdevelopment, social injustice and resource endowment.

Dr. Haq has tried to look for new ways of development; utilising the available capacity in the industrial sector, proper development of human resource, and more care for social justice. However these are not in any way integrated into a system or an ideology. On the one hand, he advocates Socialist solutions eulogizing Chinese methods of self-reliant development, but, on the other, he is also equally a strong champion of liberal economic institutions.

In the presentation of all 'his' sins, no coherent development philosophy emerges. There is talk of sins, but where is the code of ethics to identify them? There was no code of ethics during the whole period of development under review. This holds particularly true for the sixties, during which economic planners and Ayub himself were more enamoured by growth rates rather than by meaningful development, (cf. p. 117, 2nd para.)

The author, despite 'his' seven sins does not seem to be optimistic about Pakistan's future development when he says :

"We have come almost to a stage where we are sometimes even afraid to voice our liberal solution. We have come to the end of the road". (p. 20)

Did the fault really lie with the 'liberal solution' or was there a lot more to it? Development, unfortunately, was not understood in its proper and deeper perspective. It was considered a simple game, with aid and bureaucracy providing the mechanism for its execution. What the planners failed to comprehend was not so much the role of a 'liberal solution', but more its incorruptible implementation.

Dr. Baqai has contributed two articles. They relate to foreign aid, self-help, and social justice.

Unlike Dr. Haq's article, which is both reflective and provocative, Dr. Baqai's two articles are, more or less, a descriptive presentation of all that happened in Pakistan's economy during the full two decades 1950-70.

Foreign aid seems to be very popular with the author. Whenever he gets an opportunity to describe its role in development, he does not talk of sins, but only of virtues.

Here are just two examples :

1. "Foreign aid is recognised as a unique factor for which there is no domestic substitute beyond a certain limit".
2. "... foreign aid has to be seen as a substantial force assisting in the total transformation of a less-developed economy. It can smooth out the process of socio-political change by relaxing the resource constraints and by softening various tensions and conflicts. Foreign assistance can also act as an agent of change: certain changes are required merely to absorb aid effectively; while others can be brought about through its use as an instrument of constructive leverage" (P. 29).

This author seems to be convinced that aid has played a useful role in the development of Pakistan. Perhaps without aid, Pakistan's development would have been far less.

This may be true, but it may also not be true. Aid is something which comes from outside national borders. It carries with it not only development leverage but many other negative leverages as well. If Dr. Baqai cannot see this, he is referred to Teresa Hayter's thought-provoking and background-revealing book 'Aid as Imperialism'. This is what she writes :

"Aid . . its contribution to the well-being of the peoples of the Third world is negative . . . Any contributions to their well-being which may arise through aid are incidental to its main purposes. The availability of official aid increases the likelihood that the Governments of Third world countries will tolerate the continuations of massive outflows of private profits and interest on past debts. It may also help to create and sustain, within Third world countries, a class which is dependent on the continued existence of aid and foreign private investment and which therefore becomes an ally of imperialism" (p. 9 Harmondsworth : penguin, 1971.

Although the reviewer may not wholly share the above views, there is nevertheless an urgent need to judge aid impartially, not on pros alone, but on cons as well.

Another point where integrity is in doubt in the above article on aid is for example, when the author writes :

“Broadly speaking, foreign assistance was to be concentrated on countries which would :

- (a) seek a climate for the effective absorption of foreign resources :
- (b) be willing to help themselves by imposing sacrifices on their people to the extent permitted by improvement in their economic situation, and
- (c) plan adequately for the kind of growth which in due course would be self-sustaining”. (p. 27.)

The above points may look harmless, but, on deeper reflection, would reveal the ‘dependent’ character of an aid-receiving country. Does not the author here support, at least partly, the thesis of Teresa Hayter ?

Apart from aid, Dr. Baqai also deals with a number of other issues involved in the process of development in Pakistan. He points out, for example, the need for more social justice and for the mobilisation of domestic resources. Like Dr. Haq’s article, Dr. Baqai’s paper, too, does not come up with any firm prescription for development. He also floats in the same sea of thought, and, worse still, is even oblivious of the sins.

There are a number of challengeable observations. For example :

1. “The urban areas were not confronted with a drying up of their major sources of fresh funds. There was also a change in the domestic terms of trade in favour of agriculture : The support prices for food-grains represented an increase in income to the farmers and a rise in the cost of living in urban areas. Then, too, under the development programme, more was being spent on the subsidized sale of fertilizers and pesticides and less on the social amenities (like health and education) strongly demanded in urban areas”, (p. 45).

The author appears to imply that a platform was set for the reduction of rural-urban inequalities. However, studies carried out on the issue of rural-urban income disparities reveal that the gap between the rural and the urban incomes continued to



widen unabated until 1970/71. The statement that the terms of trade were in favour of agriculture is equally not tenable. The increase in the prices of manufactured goods exceeded that of food articles after 1968/69 and it would appear that the terms of trade began to turn against agriculture from this period onward.

2. "A larger absorption of aid requires an inflationary domestic policy without a corresponding change in the exchange rate". (p. 46)

If the inflow of aid is defined as the difference between a country's imports and exports (including invisible transactions) or the balance of payments gap, then by definition the larger the flow of the aid the larger has to be the balance of payments gap. However a desired deficit in the balance of payments can be achieved in various ways and not necessarily through an inflationary domestic policy.

- (3) "... that a developing country which has selected a growth path based on foreign assistance must implement policies which make continuing aid availability essential for maintaining progress."

It is a well known fact that inflow of aid under a given set of conditions could play a positive role in the process of development, but to say that a developing country having once decided to promote its development on foreign assistance "must implement policies which make continuing aid availability essential for maintaining progress" is making development, the *raison d'être*, subservient to aid. May we ask the author : Isn't the development the goal and not the aid ?

The second article by Dr. Baqai reveals little that is new. There is lot of repetition of earlier observations. The author seems to place a great faith in the pragmatic policies faithfully followed by Pakistani planners in the past. Aid was, of course, one of the significant means of implementing this policy. While reading the article, the reviewer once more gets the impression that the author is a strong adherent of aid, and if a world agency like the World Bank makes favourable comments on Pakistan's performance, this is taken as a compliment, (p. 53) and further proof of a 'dependent' character seeking appreciation not from 'within' but from 'without'.

The issue of 'self-help and social justice' has not been well treated. There are numerous statements to support social justice within the on-going pursuit, of growth but there is not much in the article to support the cause of self-help or to promote social justice as a matter of principle. The share of social justice is the residual of development. It is not the indispensable component thereof.

Statements like this; "Without (the desired) institutional development, which mobilizes the savings and efforts of a large segment of the society, the modern sector would remain grafted as an alien body on the basic traditional sector where the growth impulses do not percolate" (p. 70) do not seem to fit well with the whole content, tenor and spirit of the article.

Critically speaking his statement is more a contradiction than an affirmation of the author's treatment of the whole process of development. The author, though knowing much about the successes and failure of development in Pakistan, is not, however, courageous enough to call a spade a spade. He is too appreciative of foreign aid, too cautious of criticising the planners nostalgia for 'dualistic development' and points only platonically to the importance of social justice.

Dr. Nurul Islam deals with the topic "Industrial Development in Pakistan: Policies, progress and problems". The article is a good account of Pakistan's industrial development. But there is nothing beyond that. Dr. Islam is also very cautious, and the way he treats the whole problem sounds like a narrative of all that happened in the past two decades.

Nevertheless Dr. Islam's paper has a number of good points which make it quite useful. For instance, he points out the neglect of smaller (domestic) entrepreneurs by the prevailing package of facilities and incentives. Further, he underlines the need for developing a technology which suits the factor endowments of the less-developed countries. But to expect the implementation of this idea, partly with the assistance of large international industrial corporations does not seem to be convincing. These agencies do more to turn the developing economies (like Hong Kong and Singapore) into sub-economies, than to encourage their becoming independent in the sphere of international trade and bargaining.

The last article is on "The performance profile of the Government of Pakistan". It is contributed by Dr. Khalid B. Sayeed, a political scientist. Dr. Sayeed's approach in dealing with the pheno-

menon of development has more political colour. He gives more weight to freedom, social justice, ideology, and the regulative (coercive) role of state. In the view of Dr. Sayeed, some of the crucial reasons for the fall of Ayub were the increasing tax burden on the general public, the growing gap between the few rich and the many poor, and, last but not least, the control exercised on the 'freedom package'. The emergence of all these 'dissatisfying elements' among the wider populace made even the so-called pragmatic policies of the Government of President Ayub a *grande erreur*.

In Dr. Sayeed's view, Ayub did not perceive at the right time that the Pakistani society that he had inherited in 1958 had mean while changed. There had now taken place ...'' a redistribution of power in favour of the more recently mobilized and politicized groups both in urban and rural areas''. In a nutshell a whole range of new variables had emerged in the socioeconomic and political matrix of the society.

Though the four articles written by economists, if seen in their totality, they offer a kind of *tour d'horizon* of the development thinking during the period under review, do not seem to explain why a 'convenient' model of development based on foreign aid was preferred to a rather 'inconvenient' model of development oriented to domestic resource endowment.

Was it a natural outgrowth from the "thought world" then, or was it a system or order immanent? None of these questions is gone into. What the authors have done is simply to narrate what they experienced as actors while staging the drama of development. Except for a frank confession by Dr. Haq, the remaining articles are not a full reflection of how the public audience felt it.

There are, of course, some hints here and there, for example, the increasing social unrest culminating later into the abdication of president Ayub, but the whole malady of continued under development or maldevelopment has not been fully exposed and diagnosed.

Although limitations are imposed on the reviewer, such as the confinement of his appraisal to the text of the articles, he experiences a feeling (perhaps less academic and more moral) of provocation while going through the book under review.

On the basis of what is contained in the articles published in the book, it could be said that the issue of development has not been made clear. None of the authors, for example, *has* been able to define a development model or framework suited to the needs and aspirations

of the people of Pakistan. What they have done is simply to reproduce various disjointed thoughts, accompanied by a history of actual performance experience. This, of course, is not doing justice to the subject.

To the reviewer the type of development that has taken place in Pakistan over the past two decades has been counter to a development rationale built on the resource-endowment and social-aspirations criteria. The blatant capitalistic model of development ran contrary to the above rationale of development. It, drew heavily, for example, on the foreign resources, and did very little to draw on the local resources. The result was that the development coverage became confined to a few privileged people, sophisticated skills, and only a selected or limited number of quantity of goods and services.

In this way the larger part of the resource endowment remained untapped and the goals of distributive justice or broad-basing of economic activities remained unfulfilled. Regional disparities grew and income distribution worsened. Scarce resources like capital became or were made surplus, and the surplus resources, like manpower or simple skills remained underutilized.

The worst happened in the education sector, where graduates were produced, but the openings generated in the economy were too few to absorb them. At the lower and middle levels, the country, however, continued to suffer a shortage of skilled craftsmen, but not much was done to cover this deficit. A strange economy had been evolved: exhibiting a permanent disequilibrium between the scarce and the surplus resources. This way, the economic planners kept the development wheel 'under-developing'.

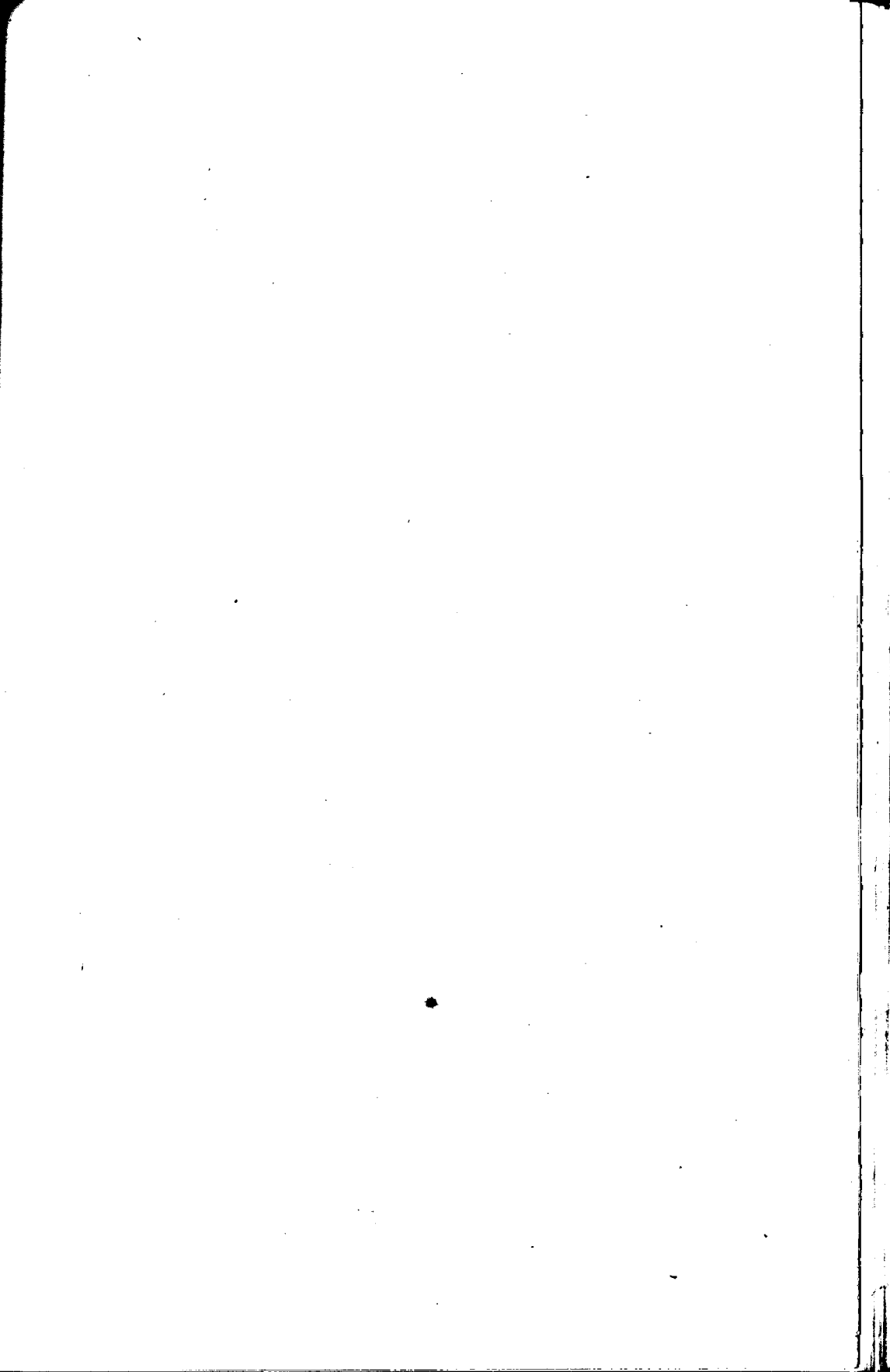
On the social front things are still worse. Distributive justice, the *raison d'etre* of development, was sacrificed at the altar of expediency and "growthmanship".

As a consequence of the wrong development rationale followed in the past, Pakistan is now confronted with rising unemployment, an enormous foreign debt burden (\$4.7 billion) and a feeling of despondency everywhere. Pakistan's planners committed not only seven 'minor' sins, as Dr. Haq says, but one major sin as well. This was the non-presentation of a framework, ideological or philosophical, with the help of which this nation could launch development based on self-reliance (mobilisation of domestically available resources) and at the

same time achieve the goal of social equity. Foreign aid, even taking into account, its positive role, has done the greatest harm. It has made us dependent.

Pakistan is a rich country. It has enormous potential everywhere, whether you look at agriculture, small crafts or manpower. But it is still being branded as a poor country. We must reject this notion: The development rationale followed in the past has ignored the resource endowment of the country and also the social goals. This is tantamount to perpetuating the under-development of Pakistan's economy.

A great challenge faces all of us: all those who committed sins in the past and also for all those who are now trying to become vocal protagonists of a socially acceptable and national resource-endowment oriented development. By doing this, the experts will be able to accomplish what the *volont' de tous* demands and not what the *volonted de la minorite'* justified in the past.



## A NOTE ON CHINESE (RMB) CURRENCY

*Yang Pei-Hsin\**

The purchasing power of the Chinese Currency, the renminbi (RMB) has been steady for the past 25 years. Prices of daily necessities such as food grain, cotton cloth table salt and coal have remained stable. Some of these have gone down. Medicines, for example, generally cost only one-fifth as much as in 1950. House rents, water, electricity, postal and public transport rates have remained low and unchanged. Rent takes only 3 to 5 percent of a worker's wages. The expanding petroleum industry has brought lower, not higher, prices for petroleum gas for home use.

In the old society there was a scissors difference between the prices of industrial and agricultural products. To narrow this, the state gradually raised the purchasing prices of farm products and lowered the sales prices of fertilizers, pesticides, diesel oil and other things needed in agriculture. This increased the peasants cash income and made it possible for them to buy more manufactured goods with the same amount of money.

The RMB's purchasing power on the world market has been stable for years. As world confidence in the RMB has grown, more than 80 countries and regions now use it to quote prices and settle accounts in trade and other economic dealings with China.

Why has the RMB been able to keep stable? The answer lies in the road the Chinese people took after liberation.

When the Kuomintang reactionaries headed by Chiang Kai-shek fled the mainland in 1949, they left the economy in shambles. Production was dropping and the people were poverty-stricken. From the beginning of the war against Japanese aggression in 1937 to liberation in 1949, the bank notes issued by the Kuomintang inflated 140,000 million times and commodity prices 8,500,000 million times.

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Bank notes that would buy two oxen in 1937 could not buy even one grain of rice at liberation in 1949.

During this period more than 100 million U.S. dollars in notes flowed into China. Paper money issued by banks in Hongkong, totalling 600 million Hongkong dollars, flooded south China. With their paper money the imperialists encroached on China's sovereignty and plundered the wealth of the Chinese people. Speculation in foreign currencies accelerated price rises and plunged the working people into a still more desperate plight.

As soon as the People's Republic of China was established in 1949 the People's Government, backed by the masses of the people, abolished all the monetary privileges of the imperialists in China, confiscated all bureaucrate-capitalist financial organizations, struck at speculation in the money market, cleared out the fapi, the Kuomintang currency, and banned the circulation of all foreign currencies.

Independence and self-determination is the revolutionary principle behind the Chinese people's currency. This policy was first practiced toward the end of the 1920s in the revolutionary bases where the Chinese people set up their own banks and issued currency. This protected the people and resources of the base areas by cutting off all links with imperialist and Kuomintang currencies.

As the Kuomintang troops retreated steadily during the war against the Japanese invaders, the people's political regime and with it the *kangpi* (resistance currency) appeared in the enemy's rear. The people's regime banned the notes issued by the Japanese imperialists and the Chinese traitor government and restricted the circulation of the Kuomintang *fapi*. This protected the people in the liberated areas from the inflation that plagued other areas.

From this time on, the people's currency was maintained with a policy of independence and self-determination and was completely free from any attachment to imperialist currencies, as was the case in the Kuomintang and puppet areas.

Since its establishment the RMB has maintained no fixed relations with any imperialist currency. It does not belong to any monetary area or bloc. It formulates its own exchange rates and control regulations. Price fluctuations in New York or London have no influence on the RMB. While imperialist countries continue to pass



on their economic crises, unemployment and inflation to other countries, as the western press reveals, they can no longer do it to China.

This was the first battle China waged in establishing an independent, unified and stable socialist monetary system.

### Unifying Finance and Economy

In the early days of the people's Republic when many economic problems had yet to be solved, the bourgeoisie tried to make trouble by boosting commodity prices. It was vital to break up these capitalist speculative forces in order to stabilize prices.

Under the leadership of the Central Committee of the Chinese Communist Party, in March 1950 China unified financial and economic work, i.e. placed national revenue and expenditure, banking and distribution of materials under firm control. This made it possible to balance budgetary revenue and expenditure, and holdings and outpayments by the banks, to greatly improve the supply of commodities and promote currency recovery. More essentially, these measures strengthened the socialist economy and weakened the capitalist speculative forces. It was a decisive battle that finally halted old China's 12 years of inflation and stabilized the RMB.

In 1953 the planned purchase and supply of principal farm products by the state cut off the links between the capitalist forces in the cities and the countryside and promoted the growth of the socialist economy. The socialist transformation of agriculture, handicraft and capitalist industry and commerce, completed in the main by 1956, all but wiped out the capitalist speculative forces that incited inflation.

The implementation of these principles and policies for socialist revolution and construction laid down under the Party Central Committee and Chairman Mao resulted in a vigorous growth of the socialist economy and the consolidation of the dictatorship of the proletariat. It created conditions for the long-term stability of the RMB.

How has the RMB been kept stable over the past two and a half decades, a period in which the war to resist U.S. aggression and aid Korea took place and the country was hit by disastrous natural conditions a number of times: The decisive factor is the superiority of China's socialist economy.

With the socialist transformation of the ownership of the means of production, socialist public ownership replaced capitalist private ownership. The working people became masters of the country and the means of production. Industrial and agricultural production came under unified state planning. The aim of production was no longer profit but to build socialism and satisfy the needs of the people. The general policy of financial and economic work became to "develop the economy and ensure supplies". This is the prerequisite to a planned and proportionate development of social production.

For the past two and a half decades the general policy for the economy has been to "take agriculture as the foundation and industry as the leading factor". This policy supervises a suitable proportion in the development of agriculture, light industry and heavy industry. As agriculture has expanded, light and heavy industry has also increased by big margins.

Grain production rose from 110 million tons in the early days after liberation to well over 250 million tons today. Industrial crops such as cotton, oilseeds, sugarcane, bast fibers, tobacco and tea have increased considerably. Supplies of meat, fish, poultry, vegetable, fruit, cloth, paper, sugar, cigarettes, medicines, bicycles and sewing machines have increased from several to a dozen fold. All this provides the material base for the long-term stability of the RMB.

#### **Planned Commodity Circulation**

Prices of industrial and farm products in China are planned and regulated by the state, not left to "supply and demand". This has eliminated price fluctuations-falling prices when there is a surplus and rising prices when there is a shortage of commodities. The circulation and distribution of products are also under the unified planning of the state. Products of state enterprises belong to the state. Farm and sideline products of communes, other than those put aside for their own use, are purchased by the state at reasonable prices and sold on the market at stable prices.

The steady growth in industry and agriculture constantly increases goods in stock. At the end of June 1974, goods held in stock by commercial departments were almost double the amount in 1965. Now every yuan issued is backed by several yuan worth of commodities. This guarantees that the amount of currency in circulation

matches the commodity supply thus ensuring the long-term stability of the RMB.

Currency circulation is an expression of commodity circulation. The key to a sound currency is the adequate backing of goods and materials and the planned circulation of commodities. Stability of the currency is guaranteed when the growth of the socialist economy enables the state to hold an abundance of commodities which it supplies to the market at stable prices.

### **Revenue-Expenditure Balance**

Another necessary factor in keeping currency stable is the balance of stable revenue and expenditure and the balance of international payments. Deficits in state finances directly affect currency issuance and the stability of currency.

More than 90 percent of China's revenue comes from accumulation by the socialist enterprises. The working peoples, as masters of the country, work hard and creatively to expand production and increase the accumulation of socialist funds.

Expenditure is mainly for developing the socialist economy. The distribution and use of construction funds is based on a policy of diligence and thrift, on the practice of strict economy and no waste. Great increases of revenue from the steady expansion of industry and agriculture in the past 25 years have not only ensured funds for large-scale economic construction but made the balance of revenue and expenditure possible, with some surplus.

In special circumstances such as disastrous natural conditions, adjustment is made in a planned way by increasing production, practicing tighter economy, using state reserves and having the bumper-crop areas held the poor-harvest ones. This is the way China balances revenue and expenditure, not through obtaining foreign loans or issuing more bank notes. Today China has neither internal nor external debts.

China also balances her international receipts and payments. Plans for import and export are based on the growth of the economy, what it needs and what it can supply. Export of farm and livestock products has risen considerably since the founding of the People's Republic. Industrial products such as petroleum and machinery are also increasing. The foundation of China's balance of payments is

rock firm. Gone are the old days when dumping of foreign goods and a chronically unfavourable balance of international payments resulted in drains on gold and exchange reserve, high debts, depreciation of domestic currency and soaring prices.

China tightly controls her foreign trade. Imports and exports are under the unified management and accounting of foreign trade departments. A commodity's domestic price and export price are fixed differently. Exports are sold at international market prices, fluctuating accordingly. Imports for domestic consumption are sold at domestic prices and are not subject to price fluctuations on the international market. Prices in the country are thus kept stable. This is vital to the security of the people's livelihood and beneficial to the expansion of production and construction.

#### **Centralized and Unified Management**

Still another factor in the long stability of the RMB is the centralized and unified management of currency issuance by the state, which regulates the release and recovery of currency in a planned way.

The RMB is the only currency in circulation in China. It is issued and managed by the state bank. The currency released by the bank is recovered mainly through a planned supply of commodities. In planning the amount of wages to be paid every year, the state arranges a corresponding supply of commodities, so that the currency released for wages is recovered through sales of consumer goods.

Similarly, to ensure the timely recovery of the currency released in the countryside through the purchase of farm and sideline products, the distribution of state appropriations and bank loans for agriculture, the state makes corresponding arrangements beforehand for the supply of consumer goods and means of agricultural production.

In other words, with one hand the state has control over commodities and releases them on the market according to plan, and with the other hand it has control over currency and adjusts its circulation according to need. Adjustment of the two aspects is made through constant planning. Local or temporary imbalance arising from unexpected situations is adjusted through additional planning to achieve new balance. Only a socialist planned economy can do this.

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\*Thanks are due to Mughal Sons who supplied us the Script. (Ed.)

## Book Reviews

### Economics and the Public Purpose

*John Kenneth Galbraith*

*Boston* : Houghton Mifflin 1973 pp. xvi, 334 \$ 10.00

The readers of the New Industrial state will recall many elements of the economic landscape, Galbraith sketches in this book. There is a group of a few thousand largest corporations that control the economy which Galbraith calls the "Planning system" and on the other hand there is the remainder of the economy which he calls the market system which meets fairly well the description which neo-classical economics would fasten to the entire economy. This is a kind of duality; the economy has an overdeveloped part and an underdeveloped part. Galbraith thinks that the industries dominated by large corporations have grown to the point of "relative over-development" because growth serves the ends of the individuals in the techno structure——the groups of managers and technicians which control large corporations.

Galbraith believes that big business produces too much, rather than too little, as orthodox monopoly theory would tell us. He locates important inflationary potential in the cost-push propensities of large corporations and their unions and argues that recessions are compounded by the downward rigidity of "Planning System" prices and also by their saving habits. Savings have been a base for capital formation. Even the poor societies in the past have had a considerable capacity to save as their surviving monuments attest. The great Pyramids and St. Peter's church are result of the highly involuntary deprivations of slaves. In the modern age small savings and corporate savings are *servng* the planning system in the "West"

In another chapter he locates much of the inequality in incomes in the superior ability-to-pay of the "Planning System" and in the pay differentials occasioned by the large number of layers which compose its hierarchical system.

In another section "A General theory of reform" he advocates large transformations. He proposes public ownership and management for the large defence oriented firms and for the medical care industry. He suggests that the Govt. provides technological help and price stability for some of the weaker sectors of the "Market System". On the distributional side he advocates unionization of the employees of the market system, denial of cheap labour to the market system through the guaranteed income plan, wage controls which would keep average levels within bounds and would also reduce differentials, and the reform of tax laws particularly as they effect the perquisites of executives.

One's view of the reforms which Galbraith urges depends as much on one's image of how they would be carried out. One may agree with him that Nixon administration price controls had been lacking in skill and conviction. Many might agree that nationalized health care would be worth considering but the decision would depend heavily on one's reaction to actual experience with Govt. run health facilities. Galbraith supports the greater role of public agencies. Galbraith, who is a master in creating controversies has come out with another one. It will be interesting to read his views in "Economics and the Public Purpose"

*A.S. Khalid*

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## THE GREEN REVOLUTION IN WEST PAKISTAN Implications of Technological Change

*Leslie Nulty*

Praeger Publishers 1972

PP xxi, 150.

Agricultural Development has undoubtedly been a matter of grave concern, especially in low-income countries. It would not just provide freedom from hunger but can also be an important market for Industry. Mrs. Nulty's book on the subject of green revolution, is very comprehensive, illuminating and thought provoking in this respect. In the eighteen months of her stay in West Pakistan, she has made a very thorough study of our agriculture sector. She has expressed a very optimistic view about the apparent success of the

green revolution and in her view it has a thriving future. She is of the opinion that agriculture and industry should grow side by side and in this way an economy could gain the most. Her work, is a detailed analysis of the dramatic revolution, which took place in our country, in 1965.

Mrs. Nulty starts with the role of agriculture in economic development, in the opening chapter of her book. This provides the reader, with a basic concept of the subject which she proceeds with. Then she has discussed the geographical and socio-economic setting of West Pakistan. Here she familiarises us with the traditional agricultural set up of the country; the traditional mode of cultivation and the relationship of the landlords and tenants of the time before the green revolution. Later while coming to the period of this revolution she has discussed with great emphasis the magnitude and importance of the increase in irrigation supplies, followed by a study of interaction of the various factors of production. According to her tube-wells, chemical fertilizers and the new seeds have played the most important role. She thinks that fertilizers and seeds play a complementary role with the water supplies.

An important issue which Mrs. Nulty has discussed in her book is about the incentives for higher productivity. She has expressed her opinion that prices have not been an important incentive for the increase in agricultural output. She says "... the proportionate distribution of acreage between food and cash crops is to some extent a function of available water and not simply relative prices. Under traditional conditions of water availability, summer acreage is determined by the area cropped in winter season, but when water supplies are increased and stabilized the order of cropping decisions is reversed and farmers can first choose their cash crops and then plant as much wheat in winter as time, land and water permit." P-95. According to her, big landlords are the only class that reaps the benefit of high prices. This results in income inequalities. She has illustrated that the profitability of the new techniques is so high that farmers could produce out put over a wide range of prices. Her argument is that income elasticity of demand for the output is also fairly high.

In her analysis Mrs. Nulty has shown an optimism that West Pakistan would become self-sufficient in her wheat requirements in the very near future. However this forecast has not come true. It could be a result of the inaccuracy of the data available or the

numerous set backs that our economy had to face ever since the completion of her study in 1970. Mrs. Nulty has expressed her concern that cotton acreage has grown far more slowly than either total area cropped or the acreage planted to sugar-cane. She explains that sugar-cane production should be discouraged because Pakistan has a greater comparative advantage while producing cotton but this again goes contrary to the present Government's policy. She is also against the tractor-mechanisation. Her view is that it results in income inequality and unemployment. She thinks that infinite divisibility of "water/fertilizer/seed technology" holds out the promise of even distribution of gains from increased productivity but not tractor mechanisation. Here it can be argued that tractors can be used on cooperative basis. In practice the big landlords very often hire out tractors and other heavy machines to small farmers, which enables them to reap the benefit as well. If year, round and multiple cropping is done, it would also make tractor mechanisation a labour using technique. In tropical regions this is quite possible. Cotton harvesting often over-laps with the season for ploughing for wheat, and in the same way wheat harvest over-laps with the season for ploughing for cotton. Efficient mechanisation in the form of tractors and threshers etc. could help in over coming the problem.

Finally, it can be said that Mrs. Nulty has produced a creditable study which must be perused by everyone. From her analysis of West Pakistan's experience other developing countries could also benefit greatly. Since most of the developing countries have many characteristics in common, this experience could also be applied successfully elsewhere, with necessary modifications.

ARHAR MOHYIDDIN